PARTNER COMMUNICATIONS CO LTD
Form 6-K
August 18, 2016

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15a-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated

August 17, 2016

Partner Communications Company Ltd.
(Translation of Registrant's Name Into English)

8 Amal Street
Afeq Industrial Park
Rosh Ha'ayin 48103
Israel

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports
under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the
information contained in this Form is also thereby furnishing the information to the
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No

(If "Yes" is marked, indicate below the file number assigned to the
registrant in connection with Rule 12g3-2(b): 82-_______)

This Form 6-K is incorporated by reference into the Company's Registration Statements on Form S-8 filed with the Securities and Exchange Commission on December 4, 2002 (Registration No. 333-101652), September 5, 2006 (Registration No. 333-137102) and on September 11, 2008 (Registration No. 333-153419)

Enclosure: Materials for the Annual General Meeting of Shareholders.

Rosh Ha'ayin, Israel
August 18, 2016

PARTNER COMMUNICATIONS COMPANY LTD.

NOTICE OF

ANNUAL GENERAL MEETING OF SHAREHOLDERS

Notice is hereby given that a general meeting of shareholders constituting an Annual General Meeting (the "AGM") of Partner Communications Company Ltd. (the "Company", "Partner" or "we") will be held on Wednesday, September 28, 2016 at 14:00 (Israel time), at our offices, 8 Ha'amal Street, Rosh Ha'ayin, Israel or at any adjournment thereof.

It is proposed at the AGM to adopt the following resolutions:

(1) to re-appoint Kesselman & Kesselman, independent certified public accountants in Israel and a member of PricewaterhouseCoopers International Limited group, as the Company's auditor for the period ending at the close of the next annual general meeting;

(2) to discuss the auditor's remuneration for the year ended December 31, 2015, as determined by the Audit Committee and by the Board of Directors, and the report of the Board of Directors with respect to the remuneration paid to the auditor and its affiliates for the year ended December 31, 2015;

(3) to discuss the Company's audited financial statements for the year ended December 31, 2015 and the report of the Board of Directors for such period;

(4) to re-elect the following directors to the Company's Board of Directors until the close of the next annual general meeting: Mr. Adam Chesnoff, Mr. Elon Shalev, Mr. Fred Gluckman, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr. Ori Yaron, Mr. Yehuda Saban,Mr. Arie (Arik) Steinberg and Mr. Barak Pridor (the "Appointed Directors") to approve (or to approve and ratify, as the case may be) the compensation of several directors; to approve that these directors will continue to benefit from the Company's existing D&O insurance policy; to approve that the directors who have indemnification letters will continue to benefit from the indemnification thereunder; to approve and ratify (subject to the adoption of Resolution 5) that Mr. Barak Pridor will benefit from the indemnification under said resolution; and that the Company's directors be granted a new indemnification and release letter that includes, inter alia, release provisions subject to the adoption of Resolution 7;

(5) to approve and ratify the grant of an indemnification letter to Mr. Barak Pridor;

(6) to approve amendments to provisions of the Company's Articles of Association regarding insurance, indemnification and release;

(7) to approve a new indemnification and release letter to the Company's Office Holders; and

(8) to approve a new Compensation Policy for the Company's Office Holders.

The vote of the holders of a majority of the Ordinary Shares, par value NIS 0.01 per share (the "Ordinary Shares") participating in the AGM and voting on the matter is required for the approval of any of items 1, 4(i) and 4(iii) on the agenda. No vote is required in connection with the discussion of items 2-3 on the agenda.

The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of any of items 4(ii), 5 7 and 8 and; provided, that one of the following conditions is fulfilled: (i) the majority of votes in favor of the matter shall include at least a majority of the votes of shareholders not constituting Controlling Parties (as stated in the Israeli Companies Law (1999), as amended (the "Israeli Companies Law"), including section 268 thereof, "Controlling Parties") in the Company, or those having a Personal Interest (as defined in the Israeli Companies Law, a "Personal Interest") in the approval of the pertinent item, participating in the vote; which votes shall not include abstaining votes; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the Company.

The vote of the holders of at least seventy five percent (75%) of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of item 6 on the agenda; provided, that one of the following conditions is also fulfilled: (i) the majority of votes in favor of the matter shall include at least a majority of the votes of shareholders not having a Personal Interest in the approval of the item participating in the vote; which votes shall not include abstaining votes; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the Company.

Only shareholders of record at the close of business on August 23, 2016 (the "Record Date") will be entitled to participate in and vote at the AGM, subject to the restrictions in the Company's Articles of Association, as set forth in the attached Proxy Statement. All shareholders are cordially invited to attend the AGM in person.

The Israeli Companies Regulations (Deeds of Vote and Position Notices) (2005), as amended, state that shareholders who will not attend the AGM in person may vote with respect to items 4-8 on the agenda by completing the second part of the Hebrew form of the Deed of Vote (ktav hatzba'a). For the shareholders' convenience, items 1-3 and on the agenda are also included in the Deed of Vote (although said items are not subject to the provisions of such regulations), and an English convenience translation of the Deed of Vote is included. Under such regulations, the shareholders may also submit a position notice (hoda'at emda) to the Company's offices (envelope marked clearly as "position notice", to the Company Secretary, at the address stated above) in respect of items 4-8 on the agenda, no later than ten (10) days before the AGM meeting date (September 18, 2016). The deadline for submission of the Board of Directors' response to such position notices is September 23, 2016. Changes to the AGM agenda may be made after the filing of the Deed of Vote, including by adding an item to the agenda following a shareholder request (in accordance with Section 66(b) to the Israeli Companies Law) submitted to the Company no later than August 25, 2016 (seven (7) days following the date of filing the attached Proxy Statement), all in accordance with an amendment to the Israeli Companies Regulations (Notice and advertisement regarding a general meeting and a class meeting in a public company and the addition of an item to the agenda) (2000). In such case, the Company will file an amended agenda and an amended Deed of Vote no later than September 1, 2016. The filing of an amended agenda will not require the change of the Record Date as set forth above and in the attached Proxy Statement. The Hebrew form of the Deed of Vote, the amended agenda and the amended Deed of Vote (both, if any) and position notices are or will be available on the websites: www.magna.isa.gov.il or www.maya.tase.co.il; and an English convenience translation of the documents is available on Form 6-K at the U.S. Securities and Exchange Commission's EDGAR System

http://www.sec.gov/edgar.shtml.

Shareholders who will not attend the AGM in person are requested to complete, date and sign the aforementioned form of Deed of Vote distributed herewith (or the amended Deed of Vote, if any) (either the Hebrew or the English version) and to return it promptly (and in any event at least four (4) hours prior to the time of the AGM) to the Company at its address above or use the electronic voting system for shareholder meetings of publicly listed Israeli companies via its MAGNA system, following a registration process, no later than four (4) hours before the time fixed for the AGM. The shareholders are requested to vote only once, either by sending the Deed of Vote (the Hebrew version or the English version, but not both) or by electronic voting. If a shareholder votes both ways, the vote shall be disqualified.

The Company's Articles of Association also allow shareholders registered in the Company's Shareholders Register to appoint a proxy to vote in their stead (whether personally or by means of a Deed of Vote) at the AGM, by means of a Deed of Authorization in the form attached to this Proxy Statement, so long as the Deed of Authorization is delivered to the Company at least four (4) hours prior to the time of the AGM. Shareholders may revoke their Deeds of Authorization by a written notice received at the Company's offices prior to the commencement of the AGM, and vote their shares in person.

Two or more shareholders holding Ordinary Shares conferring in the aggregate at least one-third of our voting rights, present in person or by proxy at the AGM, or who have delivered to us a Deed of Vote, will constitute a lawful quorum at the AGM. Should no lawful quorum be present one half hour following the time set for the AGM, the AGM shall be adjourned to Wednesday, October 5, 2016, at the same time and place.

A shareholder is entitled to contact the Company directly and receive the text of the Deed of Vote (ktav hatzba'a) (or the amended Deed of Vote, if any) and the Position Notices (hodaot emda) (if any).

A shareholder, whose shares are registered with a member of the Tel-Aviv Stock Exchange Ltd. (the "Exchange"), is required to prove his share ownership to vote at the AGM. Such shareholder shall provide the Company with an ownership certificate (as of the Record Date) from that Exchange member and is entitled to receive the ownership certificate in the branch of the Exchange member or by mail to his address (in consideration of mailing fees only), if the shareholder so requested. Such a request will be made in advance for a particular securities account.

A shareholder, whose shares are registered with an Exchange member, is entitled to receive from the Exchange member who holds the share on the shareholder's behalf, by e-mail, for no charge, a link to the text of the Deed of Vote (or the amended Deed of Vote, if any) and to the Position Notices (if any) posted on the Israel Securities Authority website, unless the shareholder notified that he is not so interested; provided, that the notice was provided with respect to a particular securities account, prior to the Record Date.

For information regarding compensation on an individual basis for the Company's five Office Holders with the highest compensation for the year 2015, please see the Company's Annual Report on Form 20-F for the year ended December 31, 2015 "Item 6. Directors, Senior Management and Employees - Item 6B. Compensation" at http://www.sec.gov/Archives/edgar/data/1096691/000117891316004683/0001178913-16-004683-index.htm

Copies of the proposed resolutions are available at our offices, 8 Ha'amal Street, Rosh Ha'ayin, Israel, every business day from 9 a.m. to 5 p.m. (Israel time), following prior coordination at telephone number +972-54-7814191.

By Order of the Board of Directors

Nomi Sandhaus, Adv.

Company Secretary

PARTNER COMMUNICATIONS COMPANY LTD.

8 Ha'amal Street

Rosh Ha'ayin 4810302, Israel

PROXY STATEMENT

This Proxy Statement is furnished to the holders of Ordinary Shares, par value NIS 0.01 per share (the "Ordinary Shares"), including holders of American Depositary Shares (each representing one Ordinary Share, the "ADSs") of Partner Communications Company Ltd. (the "Company", "Partner" or "we") in connection with the solicitation by the Board of Directors of proxies for use at a general meeting of shareholders constituting an Annual General Meeting (the "AGM"), to be held on Wednesday, September 28, 2016 commencing at 14:00 (Israel time), at our offices, 8 Ha'amal Street, Rosh Ha'ayin, Israel, or at any adjournment thereof.

It is proposed at the AGM to adopt the following resolutions:

(1) to re-appoint Kesselman & Kesselman, independent certified public accountants in Israel and a member of PricewaterhouseCoopers International Limited group, as the Company's auditor for the period ending at the close of the next annual general meeting;

(2) to discuss the auditor's remuneration for the year ended December 31, 2015, as determined by the Audit Committee and by the Board of Directors, and the report of the Board of Directors with respect to the remuneration paid to the auditor and its affiliates for the year ended December 31, 2015;

(3) to discuss the Company's audited financial statements for the year ended December 31, 2015 and the report of the Board of Directors for such period;

(4) to re-elect the following directors to the Company's Board of Directors until the close of the next annual general meeting: Mr. Adam Chesnoff, Mr. Elon Shalev, Mr. Fred Gluckman, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr. Ori Yaron, Mr. Yehuda Saban,Mr. Arie (Arik) Steinberg and Mr. Barak Pridor (the "Appointed Directors") to approve (or to approve and ratify, as the case may be) the compensation of several directors; to approve that these directors will continue to benefit from the Company's existing D&O insurance policy; to approve that the directors who have indemnification letters will continue to benefit from the indemnification thereunder; to approve and ratify (subject to the adoption of Resolution 5) that Mr. Barak Pridor will benefit from the indemnification under said resolution; and that the Company's directors be granted a new indemnification and release letter that includes, inter alia, release provisions subject to the adoption of Resolution 7;

(5) to approve and ratify the grant of an indemnification letter to Mr. Barak Pridor;

(6) to approve amendments to provisions of the Company's Articles of Association regarding insurance, indemnification and release;

(7) to approve a new indemnification and release letter to the Company's Office Holders; and

(8) to approve a new Compensation Policy for the Company's Office Holders;

A form of a Deed of Vote (Hebrew and English versions) for use at the AGM (either the Hebrew or the English version) is distributed herewith (or an amended Deed of Vote (if any) will be filed). With respect to Items 4-8 on the agenda, the Deed of Vote shall also be deemed as a Deed of Vote (Ktav Hatzba'a) under the Israeli Companies Law (1999), as amended (the "Israeli Companies Law") and Israeli Companies Regulations (Deeds of Vote and Position Notices) (2005), as amended. Shareholders may withdraw their Deed of Vote by contacting the Company at its address above and duly proving their identity, at least 24 hours prior to the AGM and vote their shares in person. Ordinary Shares represented by any Deed of Vote in the Hebrew or the English version distributed herewith (or the amended Deed of Vote, if any), if properly executed and delivered to the Company at the address above at least four (4) hours prior to the time of the AGM or if voted electronically, no later than four (4) hours before the time fixed for the AGM, will be voted as indicated on the form.

In parallel to distribution of this Notice and Proxy Statement, the afore-mentioned Hebrew version of the Deed of Vote (ktav hatzba'a) per Israeli requirements and an English version of the Deed of Vote will be distributed among the shareholders. The shareholders are requested to send only one version of the Deed of Vote (the Hebrew version or the English version, but not both). If both versions will be sent by shareholders, in case of contradiction between the two versions (as determined by the Company Secretary), the vote shall be disqualified.

Proxies for use at the AGM are being solicited by the Board of Directors of the Company. Only shareholders of record at the close of business on August 23, 2016 will be entitled to participate in and vote at the AGM. Proxies are being distributed to shareholders on or about August 18, 2016; however, certain of our officer holders, directors, employees and agents, none of whom will receive additional compensation therefor, may solicit proxies by telephone, e-mail or other personal contact. Partner will bear the cost of the solicitation of the proxies by the Board of Directors, including postage, printing and handling, and will reimburse the reasonable expenses of brokerage firms and others for forwarding material to beneficial owners of Ordinary Shares.

On August 17, 2016, the Company had outstanding 158,988,184 Ordinary Shares, excluding 1,582,215 treasury shares. The holder of each Ordinary Share is entitled to one vote upon each of the matters to be presented at the AGM.

Registered joint holders of shares should take note that, pursuant to the Company's Articles of Association, only the first named joint holder of any share shall vote, either in person, by proxy or by Deed of Vote, without taking into account the other registered joint holder(s) of the share. For this purpose, the first named joint holder shall be the person whose name is registered first in the Shareholders Register.

Holders of ADSs are not registered in the Company's Shareholders Register but may instruct the Depositary, Citibank, N.A., as to the exercise of the voting rights pertaining to the Ordinary Shares evidenced by their ADSs in the manner and to the extent provided in the Depositary Agreement governing the ADSs.

ITEMS 1 AND 2

RE-APPOINTMENT OF AUDITOR AND DISCUSSION OF ITS REMUNERATION

Under the Israeli Companies Law and the Company's Articles of Association, the shareholders of the Company are authorized to appoint the Company's auditor, and the Board of Directors is authorized to determine the auditor's remuneration. Under the Company's Articles of Association, the Board of Directors is required to report the auditor's remuneration to the shareholders and the shareholders are required to discuss that report. In addition, the approval by the Audit Committee of the auditor's re-appointment and remuneration is required under the Nasdaq Corporate Governance Rules.

The Audit Committee has approved, and the Board of Directors has recommended, to re-appoint Kesselman & Kesselman, independent certified public accountants in Israel and a member of the PricewaterhouseCoopers International Limited group ("Kesselman & Kesselman"), as auditor of the Company for the period ending at the close of the next annual general meeting.

The Audit Committee and the Board of Directors have determined that the remuneration of Kesselman & Kesselman, the Company's auditor, for the year ended December 31, 2015, and its affiliates will be NIS 2,265 thousand for audit fees (including SOX audit), NIS 441 thousand for audit-related fees, and NIS 436 thousand for tax fees. Partner has agreed to indemnify Kesselman & Kesselman and their personnel from any and all third party claims, liabilities, costs and expenses, including reasonable attorney's fees, arising from or relating to services rendered under the Tax Services engagement letter for the year 2015, except to the extent finally determined to have resulted from the gross negligence, willful misconduct or fraudulent behavior of Kesselman & Kesselman relating to such services.

It is proposed that at the AGM the following resolution be adopted:

1. "RESOLVED: to re-appoint the Company's auditor, Kesselman & Kesselman, as the auditor of the Company for the period ending at the close of the next annual general meeting."

The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of this resolution.

The Board of Directors recommends a vote FOR approval of this proposed resolution.

It is proposed that at the AGM the following matter be discussed:

2. "The remuneration of the auditor and its affiliates for the year 2015 as determined by the Audit Committee and by the Board of Directors and the report by the Board of Directors of the remuneration of the auditor and its affiliates for the same period are hereby noted."

No vote of the holders of Ordinary Shares is required in connection with discussion of this item 2.

ITEM 3

DISCUSSION OF THE COMPANY’S AUDITED FINANCIAL STATEMENTS

The Audit Committee has approved (pursuant to the Nasdaq Corporate Governance Rules) and recommended, and the Board of Directors has approved (pursuant to the Israeli Companies Law), the audited financial statements of the Company for the year ended December 31, 2015, attached hereto as Annex “A”. Under the Israeli Companies Law and the Company’s Articles of Association, shareholders’ discussion is required for both the financial statements and the related report of the Board of Directors, which is attached hereto as Annex “B”. A representative of the Company’s auditor, Kesselman & Kesselman, is expected to be present at the AGM, and will be available to respond to appropriate questions of shareholders.

It is proposed that at the AGM the following matter be discussed:

“The audited financial statements of the Company for the year ended December 31, 2015 and the report of the Board of Directors for such period are hereby noted.”

No vote of the holders of Ordinary Shares is required in connection with discussion of this item 3.

ITEM 4

RE-ELECTION OF THE COMPANY’S DIRECTORS, APPROVAL OF COMPENSATION AND RELATED MATTERS

Under the Israeli Companies Law, the directors of the Company (other than the external directors (Dahatzim) who generally serve for three year terms) shall be appointed at the annual general meeting, unless otherwise provided in the Company’s Articles of Association. The elected directors shall commence their terms at the close of the AGM and serve in office until the close of the next annual general meeting, unless their office becomes vacant earlier in accordance with the provisions of the Israeli Companies Law and the Company’s Articles of Association or unless otherwise provided in the Company’s Articles of Association.

In accordance with Section 22.3A of the Company’s General License for the Provision of Mobile Radio Telephone Services using the Cellular Method in Israel dated April 7, 1998, as amended (the “License”), and with Article 23.2.6 of the Company’s Articles of Association, notwithstanding any other provision of the Articles of Association, a Qualified Israeli Director (as defined in the Articles of Association) shall be appointed as a member of the Board of Directors, and may be removed from such office, only upon written notice to the Company Secretary of his or her appointment or removal by Founding Israeli Shareholders holding Minimum Israeli Holding Shares (as both terms are defined in the Articles of Association) (the “Founding Israeli Shareholders”). The Founding Israeli Shareholders have appointed Ms. Osnat Ronen as a Qualified Israeli Director on or prior to December 8, 2009. Ms. Ronen has been a director in the Company since December 2009 and is currently a member of the Security Committee. Ms. Ronen founded FireWind PE in 2015 and has since served as its general partner. Ms. Ronen has served as an advisor to Liquidnet from 2013 to 2015. She previously served as a general partner of Viola Private Equity from 2008 to 2013. From 1994 to 2007, Ms. Ronen served in various positions at Bank Leumi Le Israel BM, including as the Deputy Chief Executive Officer of Leumi Partners Ltd. from 2001 to 2007 and as Deputy Head of the Subsidiaries Division of the Leumi Group from 1999 to 2001. Between 2004 and 2007, Ms. Ronen also led the strategic planning, deployment and execution of the Bachar Reform, one of Israel’s largest financial reforms, at Leumi Group. As part of the implementation, Ms. Ronen managed the sale of Leumi’s holdings in mutual, provident and training funds. Ms. Ronen currently serves as a director of Mizrahi Tefahot Bank Ltd., Fox-Wizel Ltd. and Perion Network Ltd. She also volunteers as a director of the College for Management (Michlala Le-Minhal) and Yissum Research Development Company of the Hebrew University of Jerusalem. Ms. Ronen has also served as a director of several portfolio companies of Viola, including: Amiad Water Systems Ltd. Orad Hi-Tec Systems Ltd., Aeronautics Ltd., Degania Medical Ltd. and Matomy Media

Group Ltd. Ms. Ronen holds a B.Sc. in mathematics and computer science from Tel Aviv University, as well as an M.B.A. from the Recanati School of Business Administration at Tel Aviv University. To the best knowledge of the Company and the Company's Directors, Ms. Ronen is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law (1968) (as amended) (the "Israeli Securities Law") in the Company. No further notice of appointment or removal of a Qualified Israeli Director was received by the Company from the Founding Israeli Shareholders. Ms. Ronen's re-appointment is not brought to the shareholders approval at the AGM and she continues to be a Qualified Israeli Director, until a contrary notice is duly received by the Company from the Founding Israeli Shareholders pursuant to the Company's Articles of Association (unless her office becomes vacant earlier in accordance with the provisions of the Israeli Companies Law and the Company's Articles of Association).

Under the Company's Articles of Association, the Board of Directors has the right to elect any person as a director and to fill an office which becomes vacant. Any director elected in such manner shall serve in office until the close of the coming annual general meeting and may be re-elected. Accordingly, on February 18, 2016, the Board of Directors has elected Mr. Barak Pridor as a director of the Company. The service of Mr. Barak Pridor was recommended by S.B. Israel Telecom Ltd., the Company's principal shareholder ("S.B.").

Mr. Adam Chesnoff, Mr. Elon Shalev, Mr. Fred Gluckman, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr.Yehuda Saban, Mr. Arie Steinberg, Mr. Barak Pridor and Mr. Ori Yaron (as also listed in the table below) will terminate their office as directors of the Company as of the end of the AGM. It is proposed to re-elect these directors until the close of the next annual general meeting, unless their office becomes vacant earlier in accordance with the provisions of the Israeli Companies Law and the Company's Articles of Association. No change is hereby made to the service of Ms. Osnat Ronen as a Qualified Israeli Director and to the service of Mr. Barry Ben Zeev (Woolfson) and Dr. Michael Anghel as external directors (Dahatzim) of the Company.

The Company's Board of Directors has determined that the board should include at least three directors who are “accounting and financial experts” under the Israeli Companies Law and regulations promulgated thereunder. Mr. Adam Chesnoff, Dr. Michael Anghel, Mr. Barry Ben Zeev, Mr. Fred Gluckman, Ms. Osnat Ronen, Mr. Yoav Rubinstein, Mr. Arie Steinberg and Mr. Yehuda Saban were determined by the Board of Directors to be “accounting and financial experts” under the Israeli Companies Law and regulations promulgated thereunder. Dr. Anghel, Mr. Ben Zeev (Woolfson), Ms. Ronen and Mr. Steinberg also qualify as independent directors according to U.S. law and Dr. Anghel, Mr. Ben Zeev and Mr. Steinberg also qualify as independent directors under the Israeli Companies Law and regulations promulgated thereunder (bilty taluy).

The Compensation Committee and Board of Directors have considered several factors in connection with the proposed resolutions (in line with amendment no. 20 to the Israeli Companies Law ("Amendment No. 20")), including the following: (a) that other than the Chairman of the Board of Directors, the directors' compensation should, generally, be in unified amounts (or calculated in a unified manner according to number of meetings, as the case may be) (as customary), and it is not appropriate to adjust it to the circumstances of each director individually; (b) that the Compensation (as defined below) proposed to the directors is appropriate considering their role, the responsibility imposed on them and considering the education, qualifications, expertise and professional experience and accomplishments of each of the directors; (c) that the Compensation should be set according to quantifiable criteria; (d) that as the directors do not hold full-time positions in the Company and as part of the final amount of the Compensation is not yet known (calculated based on participation in meetings), it is irrelevant to compare their Compensation to the compensation of Company employees (or the employees of manpower contractors who are working for the Company); (e) that the Compensation currently payable to directors does not include capital or variable components; (f) that it is meaningless to require a director to repay the Company amounts paid to him based on data that was later restated in the Company's financial statements, as the Compensation is dependent only on the number of meetings and the form of participation (participation in person, by means of communication or in writing); and (g) following approval of the Compensation by the shareholders, it is not appropriate that the directors will have discretion to reduce or otherwise change their own compensation without shareholders' approval.

The Compensation Committee and Board of Directors have noted that paying the proposed Compensation is important to enable the directors to promote the Company's objectives, its business plan and policy in the long term and to create proper and balanced incentives to the directors considering, among other things, the Company's risk-management policy, size and nature of activities. They also noted that paying the proposed Compensation is essential in order to ensure the recruitment and service of appropriate directors, having the qualifications, expertise and experience relevant to serving on the Company's Board of Directors, considering the high exposure faced today by directors in public companies and moreover in companies with securities publicly listed in the USA and in Israel.

It should be noted that the Compensation plan for the Company's directors is in accordance with the Company's New Compensation Policy for Office Holders that is being brought for shareholder approval (the "New Compensation Policy") and is in line with Amendment No. 20.

The Compensation Committee and Board of Directors have noted the respective personal interests of the directors nominated for re-election and of Ms. Osnat Ronen in this matter.

The Compensation Committee and Board of Directors have resolved and recommended to the shareholders at the AGM:

(a) to approve the compensation of Mr. Adam Chesnoff, Mr. Elon Shalev, Mr. Fred Gluckman, Ms. Osnat Ronen, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr. Arie Steinberg, Mr. Ori Yaron and Mr. Yehuda Saban, commencing from the close of the AGM, and to approve and ratify the compensation of Mr.Barak Pridor, commencing from the date of his appointment (February 18, 2016), for their respective services to the Company as directors, which is equal to: (i) an annual fee of NIS 180,000 (one hundred and eighty thousand NIS); and (ii) an attendance fee of NIS 4,000 (four thousand NIS) per meeting, applicable from the fifth meeting per year (100% thereof for participation in person, 60% thereof by means of communication, or 50% thereof in writing), in each such case, linked to the Israeli Consumer Price Index published for December 2007, but in any event no less than an aggregate amount per annum equal to U.S. $50,000 (U.S. Dollars fifty thousand, payable according to the representative exchange rate on the payment date) as previously approved by the shareholders (the “Compensation”);

(b) to approve and ratify the reimbursement of reasonable expenses in connection with the performance of their role as directors of each of the directors listed in clause (a) above, as determined by the Compensation Committee. The Compensation Committee has determined that reasonable expenses shall include the following expenses: taxi fare (as needed, upon submission of receipts); in case of international traveling - traveling expenses, including business class airline tickets; hotel expenses (up to a budget of $300 per night); and additional expenses (Per diem - $80, communication expenses and travel insurance) (such expenses, as may be updated by a non-significant amount by the Compensation Committee, from time to time, the “Reasonable Expenses”); and

(c) to approve that the directors listed in clause (a) above will continue to benefit from the Company's existing D&O insurance policy.

The Compensation Committee and Board of Directors have also resolved and recommended to the shareholders at the AGM, to approve and ratify, subject to the adoption of Resolution 5 below, that Mr. Barak Pridor will benefit from indemnification under said resolution.

In addition, the Compensation Committee and Board of Directors have resolved and recommended to the shareholders at the AGM, to approve that the directors be granted a new indemnification letter that includes, inter alia, release provisions ("Indemnification and Release Letter"), as set forth in Resolution 7 below and that insofar as the AGM will not approve the Indemnification and Release Letter, the directors will continue to benefit from the existing indemnification letters which will continue in full force and effect.

Proxies (other than those directing the proxy holders not to vote for all of the listed nominees) will be voted for the election of all of the nominees, to hold office until the close of the next annual general meeting, unless their office becomes vacant earlier in accordance with the provisions of the Israeli Companies Law and the Company’s Articles of Association. In the event any one or more of such nominees shall be unable to serve, the proxies will be voted for the election of such other person or persons as shall be determined by the proxy holder in accordance with his or her best judgment. The Company is not aware of any reason why any of the nominees, if elected, should not be able to serve as a director.

Name	Position
Mr. Adam Chesnoff	Director and Chairman of the Board of Directors
Mr. Elon Shalev	Director and Vice Chairman of the Board of Directors
Mr. Fred Gluckman	Director
Mr. Yoav Rubinstein	Director
Mr. Arieh Saban	Director
Mr. Yehuda Saban	Director
Mr. Arie (Arik) Steinberg	Director
Mr. Ori Yaron	Director
Mr. Barak Pridor	Director

Mr. Adam Chesnoff was appointed to the Board of Directors of Partner effective as of January 29, 2013 and was appointed to serve as Chairman of the Board of Directors on November 20, 2013. Mr. Chesnoff serves as the President and Chief Operating Officer of Saban Capital Group, Inc., responsible for overseeing its investment and business activities, including private equity and public market investments. Mr. Chesnoff is a member of the Board of Directors of Univision Communications Inc., the largest Spanish-language media company in the United States and Chairman of the Board of Directors of Celestial Tiger Entertainment Ltd., an owner and operator of pay television channels across Asia. Mr. Chesnoff is also a member of the Board of Commissioners of MNC Ltd., an Indonesian media company. In addition, Mr. Chesnoff served as Vice-Chairman of the Board of Directors of ProSiebenSat.1 Media AG from 2003 until 2007. From 2005 to 2010, Mr. Chesnoff served on the Board of Directors of Bezeq Israel Telecommunication Company Ltd. Mr. Chesnoff holds a B.A in economics and management from Tel-Aviv University and an M.B.A from UCLA’s Anderson School of Business. To the best knowledge of the Company and the Company's Directors, Mr. Chesnoff is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. Elon Shalev was appointed to the Board of Directors of Partner effective as of January 29, 2013 and was appointed to serve as Vice Chairman of the Board of Directors and as a member of the Security Committee on November 20, 2013. Mr. Shalev serves as a senior advisor to Saban Capital Group, Inc. Mr. Shalev was the founder of Channel 2 news and from 1993 to1995 served as its Chief Executive Officer. From 1996-1999, he served as Editor in Chief of “Yediot Aharonot”, and from 2000 to 2001 he served as Executive Vice President of Discount Investment Corporation Ltd. of the IDB Group. Mr. Shalev was the co-founder of SHL Telemedicine Ltd. and still serves as a director in the company. Mr. Shalev served in the past on the Board of Directors of Bezeq Israel Telecommunication Company Ltd., DBS Satellite Services (1998) Ltd. (Yes) and Bezeq International Company Ltd. Mr. Shalev holds a B.A. in political science from Tel Aviv University. Mr. Shalev is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. Fred Gluckman was appointed to the Board of Directors of Partner effective as of January 29, 2013. Mr. Gluckman serves as the Chief Financial Officer and executive vice president of Saban Capital Group, Inc. ("SCG"). In this position, Mr. Gluckman is responsible for all financial, accounting, tax, HR and IT functions of the firm, and has been an active member of the firm's investment team since joining the firm in 2003. Mr. Gluckman is a member of the Board of Directors of Celestial Tiger Entertainment and serves on its Audit Committee. Mr. Gluckman's experience, prior to joining SCG, includes international and domestic advisory work in the London and Southern California practices of Deloitte. Mr. Gluckman is actively engaged in the community, serving on multiple boards of national and local charitable organizations including on the national executive committee of the Friends of the IDF. Mr. Gluckman is a CPA and holds a B.S. in economics from Wharton Business School and studied at the Hebrew University in Jerusalem. To the best knowledge of the Company and the Company's Directors, Mr. Gluckman is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. Yoav Rubinstein was appointed to the Board of Directors of Partner effective as of January 29, 2013. Mr. Rubinstein joined SHL Telemedicine Ltd. as Senior Vice President, Head of Global Business Development in March 2012. Previously, Mr. Rubinstein served as an investment professional at Apax Partners for nine years and as Senior Advisor to Saban Capital Group, Inc. Mr. Rubinstein holds a B.A. in Business Administration from the Interdisciplinary Center in Herzliya. To the best knowledge of the Company and the Company's Directors, Mr. Rubinstein is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. Arieh Saban was appointed to the Board of Directors of Partner effective as of January 29, 2013. Mr. Saban has served since 2010 as Chairman of the Board of Directors of Saban Brands Israel Ltd. From 1983 until 2002 Mr. Saban served as the CEO of Israel Audio-Visual Corporation, a media distribution, licensing and merchandising agency that he founded. From 2000 until 2002 he served as Chairman of the Board of Directors of Fox Kids Israel, a joint venture with Fox Kids Europe. From 2005 until 2012, Mr. Saban served on the Board of Directors of the following companies: Keshet Broadcasting Ltd., Pelephone Communications Ltd., DBS Satellite Services (1998) Ltd. (Yes) Bezeq Israel Telecommunication Company Ltd. and Bezeq International Company Ltd. To the best knowledge of the Company and the Company's Directors, Mr. Saban is a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. Yehuda Saban was appointed to the Board of Directors of Partner in April 2015. Mr. Saban served between 2011-mid 2015 as Vice President Economics & Regulation and FLNG (Floating Liquefied Natural Gas) manager at Delek Drilling & Avner oil exploration. Previously, Mr. Saban served over 6 years in various capacities with the budget department of the Ministry of Finance as Manager of the Telecommunications and Tourism Unit, Manager of the Budget and Macroeconomics unit and as an economist in the Energy unit. During those years, Mr. Saban was also an active partner in a number of committees and authorities in the energy, telecommunications and infrastructure fields. Mr. Saban holds a B.A. in Economics & Business Management (graduated with honors) and an M.B.A specializing in Financing, both from the Hebrew University in Jerusalem. To the best knowledge of the Company and the Company's Directors, Mr. Saban is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. Arie (Arik) Steinberg was appointed to the Board of Directors of Partner in January 2012 and is currently a member of the Audit Committee and the Compensation Committee. Mr. Steinberg served from 2006-2010 as Chairman of the Board of Directors of Psagot Investment House, Ltd., as well as other companies in the Psagot Group, leading and overseeing the business strategies of the Psagot Group. Mr. Steinberg served as Chairman on behalf of York Capital. In addition, he served on the Board of Directors of the Tel-Aviv Stock Exchange. Mr. Steinberg also served between 1999-2003 as Chief Executive Officer of Ilanot Batucha Investment House from the IDB Group, as well as a director of Maalot (the Israeli affiliate of Standard and Poor's).Prior to that, Mr. Steinberg served as Managing Director of Etgar- Portfolio Management Trust Co. owned by Bank Mizrahi. He also served on the Advisory Boards of Mobileye Technologies and Novotrans Group SA. Mr. Steinberg serves on the Board of Directors of Leumi Partners Ltd. Mr. Steinberg studied Economics at Tel-Aviv University. To the best knowledge of the Company and the Company's Directors, Mr. Steinberg is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. (Adv.) Ori Yaron was appointed to the Board of Directors of Partner in May 2014. Mr. Yaron practices law and manages Ilan Yaron Law Offices that specializes in the areas of insurance and torts. Mr. Yaron is a member of the Board of Directors of the Geophysics Institute and served from 2006 until 2007 as a member of the Board of Directors of Mekorot Development & Enterprise and from 2011 until 2014 as a member of the Board of Directors of Hozei Israel Ltd. Mr. Yaron holds a B.A. in Economics and an LL.B. both from Tel-Aviv University and is a member of the Israeli Bar Association. To the best knowledge of the Company and the Company's Directors, Mr. Yaron is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. Barak Pridor was appointed to the Board of Directors of Partner effective as of February 18, 2016. Mr. Pridor served from 2000 until 2011 as CEO of ClearForest, a software startup that was acquired by Thomson Reuters in 2007. Following the acquisition, Mr. Pridor continued to serve as CEO of ClearForest as well as an Executive Vice President at Thomson Reuters until 2011. Mr. Pridor serves as Chairman of the Board of Directors of Applicaster Ltd. from 2015 and as a director on the Board of Directors of Leadspace Ltd. from 2013, and as a director on the Board of Directors of Playbuzz Ltd. and of Sosa Tlv Ltd. from 2013. Mr. Pridor holds a B.Sc. in Mathematics and Computer Science from Tel Aviv University and a M.B.A. from INSEAD Business School. To the best knowledge of the Company and the Company's Directors, Mr. Pridor is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

It is proposed that at the AGM the following resolutions be adopted:

(i) "RESOLVED: to re-elect Mr. Adam Chesnoff, Mr. Elon Shalev, Mr. Fred Gluckman, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr. Yehuda Saban, Mr. Arie Steinberg, Mr. Ori Yaron and Mr. Barak Pridor, to serve as directors of the Company until the close of the next annual general meeting, unless their office becomes vacant earlier in accordance with the provisions of the Israeli Companies Law and the Company's Articles of Association;

(ii) RESOLVED: (A) to approve the Compensation of Mr. Adam Chesnoff, Mr. Elon Shalev, Mr. Fred Gluckman, Mr. Yoav Rubinstein, Mr. Arieh Saban Mr. Ori Yaron and Mr. Yehuda Saban and to approve and ratify the Compensation of Mr. Barak Pridor; (B) to approve and ratify the reimbursement of Reasonable Expenses of each of the directors listed above in clause (A); (C) to approve that the directors listed above in clause (A) will continue to benefit from the Company's existing D&O insurance policy; (D) to approve and ratify that Mr. Barak Pridor will benefit from the indemnification letter subject to the adoption of Resolutions 5 below; and (E) to approve that the directors listed above in clause (A) will be granted an Indemnification and Release Letter, (as set forth in Resolution 7 below) and that insofar as the AGM will not approve the Indemnification and Release Letter, the directors will continue to benefit from the existing indemnification letters which will continue in full force and effect;

(iii) RESOLVED: (A) to approve the Compensation of Ms. Osnat Ronen and Mr. Arie Steinberg; (B) to approve and ratify the reimbursement of Reasonable Expenses of Ms. Osnat Ronen and Mr. Arie Steinberg; (C) to approve that Ms. Osnat Ronen and Mr. Arie Steinberg will continue to benefit from the Company's existing D&O insurance policy; and (D) to approve that Ms. Osnat Ronen and Mr. Arie Steinberg will be granted an Indemnification and Release Letter, (as set forth in Resolution 7 below) and that insofar as the AGM will not approve the Indemnification and Release Letter, they will continue to benefit from their existing indemnification letters which will continue in full force and effect; and

(iv) RESOLVED: these resolutions are in the best interest of the Company."

The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of items 4(i) and 4(iii) on the agenda. The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of item 4(ii) on the agenda; provided, that one of the following conditions is fulfilled: (i) the majority of votes in favor of the matter shall include at least a majority of the votes of shareholders not constituting Controlling Parties (as stated in the Israeli Companies Law, including section 268 thereof, "Controlling Parties") in the Company, or those having a Personal Interest (as defined in the Israeli Companies Law, a "Personal Interest") in the approval of this item, participating in the vote; which votes shall not include abstaining votes; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the Company.

A shareholder shall notify the Company at the address above at least four (4) hours prior to the time of the AGM, whether the shareholder is a Controlling Party in the Company or the shareholder has a Personal Interest in the approval of item 4(ii) on the agenda or not, as a condition for that shareholder's right to vote and be counted with respect to this item. A shareholder voting, by means of a Deed of Vote, may include said notice regarding his Controlling Party Interest or his Personal Interest on the Deed of Vote (to be submitted to the Company at least four (4) hours prior to the time of the AGM or if voted electronically, no later than four (4) hours before the time fixed for the AGM).

The Board of Directors recommends a vote FOR approval of these proposed resolutions.

ITEM 5

APPROVAL AND RATIFICATION OF THE GRANT OF AN
INDEMNIFICATION LETTER TO A DIRECTOR

The Israeli Companies Law and the Company's Articles of Association authorize the Company, subject to the required approvals, to indemnify and to undertake in advance to indemnify directors and other Office Holders (as such term is defined in the Israeli Companies Law) of the Company for liabilities or expenses an office holder will incur, or that will be imposed on him, as a result of an action or inaction by such person (or together with other directors or Office Holders of the Company) in his capacity as an Office Holder of the Company.

The Israeli Companies Law combined with the Israeli Securities Law authorize indemnification for:

(i) financial liability incurred or imposed in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator approved by a court; provided, that such liability pertains to one or more of the events set forth in the indemnification letter, which, in the opinion of the Board of Directors of the company, are anticipated in light of the company's activities at the time of the grant of indemnification and is limited to the sum or measurement of indemnification determined by the Board of Directors to be reasonable under the circumstances and set forth in the indemnification letter;

(ii) reasonable legal expenses, including attorney fees, incurred or ordered by a court in the context of proceedings filed by or on behalf of the company or by a third party, or in a criminal proceeding in which the director or office holder is acquitted or if convicted, for an offense which does not require criminal intent;

(iii) reasonable legal expenses, including attorney fees, incurred due to an investigation or proceeding conducted by an authority authorized to conduct such investigation or proceeding and which has ended without the filing of an indictment against the director or office holder and no financial liability was imposed on the director or office holder in lieu of criminal proceedings, or has ended without the filing of an indictment against the director or office holder, but financial liability was imposed on the director or office holder in lieu of criminal proceedings in an alleged criminal offense that does not require proof of criminal intent, within the meaning of the relevant terms in the law or in connection with a financial sanction (Itzum Caspi);

(iv) Payment to the injured party as a result of a violation set forth in Section 52.54(a)(1)(a) of the Israeli Securities Law, including by indemnification in advance; and

(v) Expenses incurred in connection with a proceeding (a "Proceeding" - halich) under Chapters H3, H4 or I1 of the Israeli Securities Law, or under Chapter 4 of Part 9 of the Israeli Companies Law, in connection with any affairs including reasonable legal expenses (including attorney fees), including by indemnification in advance.

The Israeli Companies Law combined with the Israeli Securities Law provides that a company may not indemnify a director or an office holder for his liability including for: (a) a breach of duty of loyalty towards the company, unless the director or office holder acted in good faith and had reasonable grounds to assume that the action would not harm the company's best interest; (b) a breach of duty of care done intentionally or recklessly (pezizut) except for negligence; (c) an act intended to unlawfully yield a personal profit; (d) a fine, civil fine (knass ezrahi), financial sanction (Itzum Caspi) or a penalty (kofer) imposed upon the director or office holder; and (v) a Proceeding (halich) ("Indemnification Exclusions").

At the Extraordinary General Meeting of shareholders held on October 17, 2013 (the "EGM"), the shareholders of the Company approved and ratified the grant of a revised indemnification letter (the "Revised Indemnification Letter") to the directors nominated by S.B. and Scailex Corporation Ltd., who were serving on the Board of Directors at that time, for serving as the Company's directors, or as a director or office holder on behalf of the Company in other companies. The Revised Indemnification Letter is attached hereto as Annex "C". The grant of an indemnification letter to the rest of the directors currently serving on the Board of Directors - Dr. Michael Anghel, Mr. Barry Ben Zeev, Ms. Osnat Ronen and Mr. Arie Steinberg - was approved at the Annual General Meeting held on May 8, 2012.

According to the Revised Indemnification Letter, the aggregate indemnification amount payable by the Company to all indemnified persons pursuant to all letters of indemnification issued to them by the Company on or after the date of the EGM, which indemnification letters include a maximum indemnity amount substantially similar to the Maximum Indemnity Amount under Section 3.13 of the Revised Indemnification Letter (the "Maximum Indemnity Amount"), for any occurrence of an event set out in Schedule I to the Revised Indemnification Letter (each, an "Event"), will not exceed 25% of shareholders equity (according to the latest reviewed or audited financial statements approved by Partner's Board of Directors prior to approval of the indemnification payment); provided, however, that under the circumstances where indemnification for the same Event is to be made in parallel to (i) an indemnified person and such other indemnified persons under a Revised Indemnification Letter (or other letters including a maximum indemnity amount substantially similar to the Maximum Indemnity Amount), and to (ii) one or more indemnified persons under indemnification letters issued by Partner containing a maximum indemnity amount which is the higher of 25% of shareholders equity and 25% of market capitalization (the "Combined Maximum Indemnity Amount"), the Maximum Indemnity Amount for all indemnified persons under the Revised Indemnification Letter (or other letters including a maximum indemnity amount substantially similar to the Maximum Indemnity Amount) shall be adjusted so it does not exceed the Combined Maximum Indemnity Amount to which any other indemnified person is entitled under any indemnification letter containing the Combined Maximum Indemnity Amount.

The Compensation Committee and Board of Directors have considered several factors in connection with the proposed resolutions (in line with Amendment No. 20), including the following: (a) that generally, the indemnification letter should be in a uniform manner for all directors (as customary) at the time of the grant and it is not appropriate to adjust it separately to the circumstances of each director or to other compensation he receives from the Company and it should be set according to quantifiable criteria and it is irrelevant to compare the indemnification letter to the compensation of Company employees (or the employees of manpower contractors who are working at the Company). In addition, the essence of the indemnification letter does not allow for the possibility of retaining discretion with respect to a reduction of the indemnification when it is actually paid; (b) that the Revised Indemnification Letter includes a condition that clarifies that a director will be required to repay the Company amounts paid to him based on data that was later restated in the Company's financial statements; (c) that granting indemnification letters to directors is important to enable the directors to promote the Company's objectives, its business plan and policy in the long term and to create proper and balanced incentives to the directors considering, among other things, the Company's risk-management policy, size and nature of activities; (d) that granting indemnification letters to directors is essential in order to ensure the recruitment and service of appropriate directors, having the qualifications, expertise and experience relevant to serving on the Company's Board of Directors, considering the high exposure faced today by directors in public companies and moreover in companies with securities publicly listed in the USA and in Israel.

The Compensation Committee and the Board of Directors of the Company have resolved and recommended to the shareholders at the AGM to approve and ratify, the grant of an indemnification letter to Mr. Barak Pridor, resolved that the Maximum Indemnity Amount is reasonable given the circumstances and that the indemnification events listed in Schedule I of the Revised Indemnification Letter are anticipated in light of Partner's current activities, and resolved that such resolutions are in the best interest of the Company. The Compensation Committee and the Board of Directors have noted the Personal Interest of Mr. Barak Pridor and the directors nominated by S.B. in this matter.

It is hereby proposed to issue to Mr. Barak Pridor, who was appointed as a director on February 18, 2016 (as described above under Resolution 4) and has not yet been issued an indemnification letter, with respect to his serving as a director in the Company or as a director or office holder on behalf of the Company in other companies, the Revised Indemnification Letter, attached as Annex "C" effective February 18, 2016.

It is proposed that at the AGM the following resolutions be adopted:

(i) "RESOLVED: to approve and ratify the Company's undertaking to indemnify Mr. Barak Pridor and to provide him with the Revised Indemnification Letter;

(ii) RESOLVED: the Maximum Indemnity Amount is reasonable given the circumstances and that the indemnification events listed in Schedule I of the Revised Indemnification Letter are anticipated in light of Partner's current activities; and

(iii) RESOLVED: these resolutions are in the best interest of the Company."

The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of item 5 on the agenda; provided, that one of the following conditions is fulfilled: (i) the majority of votes in favor of the matter shall include at least a majority of the votes of shareholders not constituting Controlling Parties in the Company, or those having a Personal Interest in the approval of the item participating in the vote; which votes shall not include abstaining votes; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the Company.

A shareholder shall notify the Company at the address above at least four (4) hours prior to the time of the AGM, whether the shareholder is a Controlling Party in the Company or the shareholder has a Personal Interest in the approval of item 5 on the agenda or not, as a condition for that shareholder's right to vote and be counted with respect to this item. A shareholder voting, by means of a Deed of Vote, may include said notice regarding his Controlling Party Interest or his Personal Interest on the Deed of Vote (to be submitted to the Company at least four (4) hours prior to the time of the AGM).

The Board of Directors recommends a vote FOR approval of these proposed resolutions.

ITEM 6

AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION

The Company proposes to amend its Articles of Association to reflect certain legislative amendments to provisions that have changed or will change from time to time inter alia, amendment of the provisions with respect to insurance, indemnification and release to Office Holders. In light of the current business environment and the challenging period in the Israeli telecommunications market, the Company is of the opinion that its Office Holders should be provided with proper protection in order to allow them the necessary latitude in making business decisions while taking calculated risks in good faith and for the benefit of the Company.

The full text of the proposed amendments is annotated on the amended Articles of Association attached hereto as Annex "D". The summary below is qualified in its entirety by reference to the full text of the annotated Articles of Association attached hereto as Annex "D".

The proposed amendments include the following matters:

(i) Insurance and indemnification. The Israeli Restrictive Trade Practice Law was amended to permit a company to insure and indemnify its Office Holders for expenses, including reasonable legal fees, including attorney fees, incurred by the Office Holder with respect to a proceeding in accordance with the Restrictive Trade Practices Law.

(ii) Release. Our Articles of Association allow the Company to release an Office Holder in the Company, in advance, from his liability, entirely or partially, for damage in consequence of the breach of the duty of care toward the Company in accordance with any law. It is proposed to revise this section to include Office Holders that are controlling shareholders or their relatives, subject to the receipt of the appprovals in accordance with any law. Said release will not apply to a resolution or transaction in which the controlling shareholder or any Office Holder in the Company (including other Office Holders than the Office Holder being granted the release) has a personal interest.

We propose amending Articles 33.2.6, 34.2.6 and 35.2 in the Articles of Association accordingly.

The Audit Committee and Board of Directors have resolved and recommended to the shareholders at the AGM, to approve the amendments to the Articles of Association, detailed in the form annotated on Annex "D" attached hereto, and noted that these amendments are in the best interest of the Company. The Audit Committee and Board of Directors noted that all the directors have a Personal Interest in these Articles.

It is proposed that at the AGM the following resolutions be adopted:

"RESOLVED: to approve the amendments to the Articles of Association, substantially in the form annotated on Annex "D" attached hereto, as follows:

(i) with respect to the insurance and indemnification of the Company's Office Holders, as described in item 6(i) above;

(ii) with respect to release of the Company's Office Holders, as described in item 6(ii) above; and

RESOLVED: these resolutions are in the best interest of the Company."

The vote of the holders of at least seventy five percent (75%) of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of item 6 on the agenda; provided, that one of the following conditions is also fulfilled: (i) the majority of votes in favor of the matter shall include at least a majority of the votes of shareholders not having a Personal Interest in the approval of the item participating in the vote; which votes shall not include abstaining votes; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the Company.

A shareholder shall notify the Company at the address above at least four (4) hours prior to the time of the AGM, whether the shareholder is a Controlling Party in the Company or the shareholder has a Personal Interest in the approval of item 6 on the agenda or not, as a condition for that shareholder's right to vote and be counted with respect to this item. A shareholder voting, by means of a Deed of Vote, may include said notice regarding his Controlling Party Interest or his Personal Interest on the Deed of Vote (to be submitted to the Company at least four (4) hours prior to the time of the AGM).

The Board of Directors recommends a vote FOR approval of these proposed resolutions

ITEM 7

APPROVAL OF A NEW INDEMNIFICATION AND RELEASE LETTER TO
THE COMPANY’S OFFICE HOLDERS

The Israeli Companies Law and the Company’s Articles of Association authorize the Company, subject to the required approvals, to indemnify and to undertake in advance to indemnify and release directors and other Office Holders (as such term is defined in the Israeli Companies Law) of the Company for liabilities or expenses an Office Holder will incur, or that will be imposed on him, as a result of an action or inaction by such person (or together with other Office Holders of the Company) in his capacity as an Office Holder of the Company. Accordingly the Company has granted its Office Holders indemnification letters as detailed in Resolution 5 above.

Subject to the approval of Resolutions 6 above and 8 below regarding amendments to the Company's Articles of Association and approval of a new Compensation Policy for Office Holders, the Company proposes to approve a new indemnification and release letter to be granted to the Company's Office Holders, to include release of Office Holders from liability for breach of the duty of care towards the Company, that are serving at the date of the AGM and that will serve in the Company from time to time as well as other amendments detailed in the Indemnification and Release Letter attached hereto as Annex “E”.

The Indemnification and Release Letter is in line with prevailing market conditions, is in accordance with legal provisions in general and the Israeli Companies Law in particular and is in line with both the Company's Articles of Association (that changes to it are being brought for shareholder approval in Resolution 6) as well as the new Compensation Policy for Office Holders (that is being brought for shareholder approval in Resolution 8).

The Company's Compensation Committee and Board of Directors are of the opinion that the Indemnification and Release Letter includes an updated list of anticipated events for which it is customary to indemnify and the grant of release in advance to Office Holders of the Company from liability, entirely or partially, for damage caused and/or that will be caused to the Company, insofar as will be caused, in consequence of breach of duty of care toward the Company while acting in good faith, in their capacity as Office Holders to the extent that will be allowed at the time of the release by law. This will allow them to properly fulfil their duties while considering the entailed calculated risks and the responsibility imposed on them by law. The detailed events and the provision of release provide customary and accepted protection for the Office Holders in order to allow them the necessary latitude, in accordance with the law and to make business decisions for the benefit of the Company.

The release will not apply to a breach of duty of care in a distribution ("haluka") and will not apply to the Indemnification Exclusions detailed in Resolution 5 above except for sub-section (v) of the Indemnification Exclusions. According to the Company's Articles of Association (that are being brought for shareholder approval (Resolution 6 above), release will not be given for a resolution or transaction in which the controlling shareholder or any office holder in the Company (including other Office Holders than the one being granted the release) has a personal interest. This release from liability will be for amounts for which the Office Holders are not entitled to indemnification in accordance with the Company's D&O insurance policy.

The Indemnification and Release Letter shall not cancel, derogate or constitute a waiver of any other indemnification that the Office Holder is entitled to in accordance with the provisions of any law or in accordance with any previous undertaking of the Company and/or previous agreement with the Company, insofar as the said undertaking is legally valid, and from any other resolution of the Company to grant indemnification to an Office Holder in the Company. It is clarified that the Company will not be obligated to indemnify an Office Holder for the same event, both in accordance with any previous undertaking (if and insofar as it will be valid) as well as in accordance with this Indemnification and Release Letter. In any case in which an Office Holder can be indemnified, by law, both in accordance with this Indemnification and Release Letter and a previous undertaking of the Company, the Company's Audit Committee (and insofar as the majority of its members have a Personal Interest, a special committee of two directors that do not have a Personal interest shall be formed) shall decide, subject to all legal provisions, according to which undertaking the Office Holder should be indemnified.

The Compensation Committee and Board of Directors have resolved and recommended to the shareholders at the AGM, to approve the proposed amendments to the indemnification letter, detailed in the form annotated on Annex “E” attached hereto, and noted that these amendments are in the best interest of the Company.

The Compensation Committee and Board of Directors noted the Personal Interest of the directors in receiving the Indemnification and Release Letter.

It is proposed that at the AGM the following resolutions be adopted:

RESOLVED: to approve the Indemnification and Release Letter, substantially in the form annotated on Annex “E”;

RESOLVED: to grant to all of the Office Holders of the Company the Indemnification and Release Letter, substantially in the form annotated on Annex “E”; and

RESOLVED: these resolutions are in the best interest of the Company.”

The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of item 7 on the agenda; provided, that one of the following conditions is fulfilled: (i) the majority of votes in favor of the matter shall include at least a majority of the votes of shareholders not constituting Controlling Parties in the Company, or those having a Personal Interest in the approval of the item participating in the vote; which votes shall not include abstaining votes; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the Company.

A shareholder shall notify the Company at the address above at least four (4) hours prior to the time of the AGM, whether the shareholder is a Controlling Party in the Company or the shareholder has a Personal Interest in the approval of item 7 on the agenda or not, as a condition for that shareholder's right to vote and be counted with respect to this item. A shareholder voting, by means of a Deed of Vote, may include said notice regarding his Controlling Party Interest or his Personal Interest on the Deed of Vote (to be submitted to the Company at least four (4) hours prior to the time of the AGM or if voted electronically, no later than four (4) hours before the time fixed for the AGM).

ITEM 8

APPROVAL OF A NEW COMPENSATION POLICY FOR THE COMPANY'S
OFFICE HOLDERS

The Company last adopted a compensation policy for its Office Holders (as such term is defined in the Israeli Companies Law) in October 17, 2013 ("Former Compensation Policy"). At least once every three years the Compensation Policy shall be submitted for the approval of the General Meeting of shareholders as required pursuant to the Israeli Companies Law.[1]

Therefore, we propose adopting hereby, a new compensation policy for our Office Holders, substantially in the form attached hereto as Annex “F” (the "New Compensation Policy” or the "Policy”). For the shareholders' convenience, attached hereto as Annex “G” is an English convenience translation of the binding Hebrew Compensation Policy.

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[1] However, to the extent permitted by law, if the General Meeting shall oppose approving the Policy, the Compensation Committee and Board of Directors shall be able to approve the Policy, after having held another discussion of the Policy and after having determined, on the basis of detailed reasoning, that, notwithstanding the opposition of the General Meeting, the adoption of the Policy is for the benefit of the Company.

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The Terms of Office and Employment[2] of each of our Office Holders are to be determined on the basis of the Compensation Policy (the "Compensation" or the "Compensation Plan") and shall be submitted for approval by our Compensation Committee, our Board of Directors and, if applicable, the General Meeting of shareholders, as required under the Israeli Companies Law.[3]

The purpose of the Policy is to set guidelines for the mode of compensation of our Office Holders. Therefore, the indices presented in the Policy are intended to prescribe an adequately broad framework that shall enable our Compensation Committee and Board of Directors to formulate personal Compensation Plans[4] for any Office Holder or a particular compensation component according to individual circumstances (including unique circumstances), according to the Company's needs, in a manner that is congruent with the Company's benefit and the Company's overall strategy over time. We deem our Office Holders as partners in the Company's success and the holistic approach to Office Holders' Compensation derives from this view. It is hereby clarified that no statement in the Policy or herein purports to vest any right to the Office Holders to whom the principles of the Policy apply, or to any other third party, and not necessarily will use be made of all of the components and ranges presented in the Policy.

The New Compensation Policy is based on principles that enable a proper balance between the desire to reward Office Holders for their achievements and the need to ensure that the structure of the Compensation is in line with the Company's benefit and overall strategy over time.

The New Compensation Policy was formulated with the aim of advancing the Company's objectives, its work plans and its policies with a long-term perspective, and in a manner that creates appropriate incentives for the Company's Office Holders, while taking into account, inter alia, the Company's risk-management policy, its size, its financial position and the nature of its activities. The Compensation Policy was set in a manner that will be congruent with the Company's business strategy and will constitute an incentive to implement it, and in a manner designed to enhance the Office Holders' sense of identification with the Company and its activities, increase their satisfaction and motivation and ensure that the Company can retain those Office Holders who have been contributing to the Company over time.

The New Compensation Policy does not serve to adversely affect existing agreements between the Company and its employees and it was not formulated to prejudice an existing compensation of any of the Office Holders of the Company, on which the Office Holders have relied during their employment by the Company. The Company shall abide by all existing arrangements that were in effect on the inception date of Amendment 20 to the Companies Law and/or on the date of approval of this Policy, and for as long as these agreements shall remain in effect. Any existing Compensation (including Bonuses), where the granting thereof and the method used to determine it are not discretionary (such as a Bonus deriving from predefined quantitative targets or calculated according to the period of employment), is not subject to approvals according to this Compensation Policy or Amendment 20; any existing Compensation where the granting thereof is discretionary (such as a Bonus being awarded in recognition of overall contribution to the Company) shall require approval as required pursuant to the Companies Law.

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2 As this term is defined in the Israeli Companies Law from time to time. As of the adoption date of this Policy - the terms of office or employment of an Office Holder, including the granting of an exemption, insurance, an undertaking to indemnify, or an indemnification under an undertaking to indemnify, Severance Bonus, and any benefit, other payment or undertaking of a payment as stated, which are given because of service or employment as stated. Capitalized terms referring to the Policy that are not defined herein, shall have the respective meanings ascribed to them in the Policy.

3 Insofar as the Office Holder is holding office through a company under his/her control, the provisions of the Compensation Policy shall apply mutatis mutandis: the Compensation to an Office Holder shall be paid against an invoice and not as a wage, and the components of the Compensation will be normalized so that, in economic terms, they will conform to that stated in this Policy.

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"Compensation Plan" - is defined in the Policy as a plan relating to the Terms of Office or Employment of an Office Holder or a number of Office Holders of the Company, regarding a particular matter or a variety of matters.

Our Board of Directors is responsible for managing and implementing the Compensation Policy and shall discuss and determine the procedure for supervising the proper implementation of the Compensation Policy, intended to ensure that it is being implemented. In addition, the Board of Directors has the authority to interpret the provisions of the Compensation Policy in any instance of doubt as how to implement it.

At least once every three years, and following our Compensation Committee's recommendation, our Board of Directors shall discuss and decide whether to approve a Compensation Policy for our Office Holders that will advance our targets. Our Compensation Committee and Board of Directors shall also review our Compensation Policy and the need to amend it to conform to the provisions of the law from time to time, or in the event that a material change in circumstances occurs from those that had existed when the Policy was last approved or for other reasons.

According to the provisions of the Israeli Companies Law, our Board of Directors has appointed a board committee for compensation matters - the Compensation Committee, comprised, as of the date hereof, of three members - all of our serving external directors (Mr. Barry Ben Zeev (Woolfson), Chairman and Dr. Michael Anghel) and one independent director (bilty talui) (Mr. Arie Steinberg).

The Company designed the Compensation mechanism for Office Holders in a manner intended to encourage improvement in the Company’s business processes and mode of operation and to encourage the increase of the Company’s profitability over time. The Compensation Policy prescribes an outline of principles whereby a Compensation Plan shall be defined for each of the Office Holders, which is generally comprised of three components - Ongoing Remuneration, annual Bonus and Equity Compensation (as these terms are defined in the Policy), all pursuant to the principles specified in the Policy. Without limiting the generality of the foregoing, the compensation levels of the Company’s Office Holders shall be within the customary range for Office Holders at similar companies included in a comparative survey used by the Company in order to compare the reasonability and outward fairness of its compensation system and the terms thereof in the Policy are a maximum level, not conferring a right to any employee to demand these terms. The annual Bonus, payment of which is subject to a minimum criterion, is based on a targets plan at the level of the Company, the division and a personal evaluation. The targets plan is usually defined in advance shortly after the Company’s budget is approved for the following year. Finally, the Equity Compensation is intended to align the long-term interests of our Office Holders with those of our shareholders (however the real value thereof at the time of exercise, if any, is difficult to determine). As we wish to limit our fixed expenses (the Ongoing Remuneration) while preserving flexibility to attract and retain high-quality Office Holders, there is a fundamental preference in the Policy for allowing a relatively wide range of Variable Components for future utilization.

Further details regarding the principles for and outline of Office Holders' personal Compensation Plans and of various compensation components are detailed in the full text of the Compensation Policy. The summary above is qualified in its entirety by reference to the full text of the Policy.

The New Compensation Policy of the Company revises the Former Compensation Policy with respect to various matters and issues that need to be updated and amended since the adoption of the Former Compensation Policy due to changes in market practices since then, as well as adaptation to legislative changes.

Listed below is a summary of the main amendments made to the Compensation Policy compared with our Former Compensation Policy:

1. Clause 5.2.3 was amended to allow the Company to determine a fixed and variable compensation mechanism (in cash and equity) for the chairman of the Board of Directors under conditions that will not exceed 80% of the possible conditions of the CEO of the Company in accordance with the Compensation Policy.

2. Clause 5.3 was amended so that the maximum sum of the various variable components that may be granted to an Office Holder with respect to one calendar year was reduced compared to the Former Compensation Policy.

3. Clause 5.4.1 was amended so that the monthly salary that will be determined for an Office Holder in the Company shall be up to a maximum of the 90th percentile compared to the monthly salary of parallel Office Holders in benchmark companies.

4. Clause 5.4.4.4 was amended so that the Company may be allowed to grant Office Holders in the Company additional benefits at a rate that will not exceed 10% of the annual cost of the fixed component of the relevant Office Holder.

5. Clause 5.5.1 was amended so that the minimum criterion for receiving the annual bonus will be that the total EBITDA shall not have decreased by more than 35% of the EBITDA for the year preceding the year in respect whereof the bonus is payable.[5]

6. Clause 5.5.1.3(c) was amended so that the weight to be assigned to the "personal evaluation" category in the formula of the annual bonus calculation shall not exceed the higher of 20% or not more than three monthly salaries in a year.

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[5] It should be noted that in accordance with the terms of service and employment that were approved for the CEO by the General Meeting on October 27, 2015, the minimum criterion that applies to the annual bonus for the CEO is that the total EBITDA shall not have decreased by more than 40% of the total EBITDA for the year preceding the year in respect whereof the bonus is payable, in accordance with the Former Compensation Policy.

7. Clause 5.5.3 was amended so that the maximum of the special bonuses that can be granted to an Office Holder regarding one calendar year was reduced compared to the Former Compensation Policy.

8. Clause 5.6.11 was added to include the maximum value of equity compensation of a type that is cleared in cash.

9. Clause 6.2 was added and includes the main conditions of the Office Holders' liability insurance policy (including directors and the Company's CEO) that the Company may enter into during the period of the Compensation Policy.

10. Clause 6.6 was added and includes the right to grant Office Holders a release in advance from liability for a breach of a duty of care towards the Company subject to the terms set forth in the clause.

11. Clause 7 was amended so that the CEO has the authority to approve immaterial amendments to the terms of employment of an Office Holder that is subordinate to him.

The summary is qualified in its entirety by reference to the full text of the Compensation Policy.

Our Compensation Committee has considered various matters in connection with our New Compensation Policy during several Committee meetings. Thereafter, it has approved the New Compensation Policy and recommended that our Board of Directors and our shareholders approve it. Our Board of Directors has conducted a meeting to consider the Compensation Policy recommended by our Compensation Committee (the last meeting focused on the amendments that were made to the Former Compensation Policy). In their extensive deliberations, our Compensation Committee and our Board of Directors have respectively considered numerous factors and aspects affecting the Policy and discussed the provisions of the Policy as well as various compensation components included in the Policy.

The directors noted that the New Compensation Policy was formulated with the aim of advancing the Company's objectives, with a long-term perspective, while preserving a high management level in the Company, at a challenging time in the Israeli telecommunications market.

The directors noted that the New Compensation Policy is based on principles that enable a proper balance between the desire to reward Office Holders for their achievements and the need to ensure that the structure of the Compensation is in line with the Company's benefit and overall strategy over time. The purpose of the Policy is to set guidelines for the mode of Compensation of our Office Holders. The directors deem our Office Holders as partners in the Company's success and the holistic approach to Office Holders' Compensation derives from this view.

While setting the New Compensation Policy, our Compensation Committee and Board of Directors discussed the provisions of the Policy regarding existing agreements and included a statement in the Policy clarifying that no change should be made to Compensation Plans already approved before the date of approval of the Compensation Policy by the shareholders (inclusive).

The Compensation Committee and Board of Directors have respectively resolved: (i) to approve the New Compensation Policy and recommend that our shareholders approve it; (ii) that the New Compensation Policy is based on principles that enable a proper balance between the desire to reward Office Holders for their achievements and the need to ensure that the structure of the Compensation is in line with the Company's benefit and overall strategy over time and that adoption of the New Compensation Policy is important to advance the Company's objectives, with a long-term perspective, at a challenging time in the Israeli telecommunications market; and (iii) that these resolutions are in the best interest of the Company.

The Compensation Committee and Board of Directors have noted the respective personal interests of all our directors in the resolutions below.

It is proposed that at the AGM the following resolutions be adopted:

"RESOLVED: to approve the New Compensation Policy in the form attached hereto as Annex "F"; and

RESOLVED: this resolution is in the best interest of the Company."

The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of item no. 8 on the agenda; provided, that one of the following conditions is fulfilled: (i) the majority of votes in favour of the matter shall include at least a majority of the votes of shareholders not constituting Controlling Parties in the Company, or those having a Personal Interest in the approval of this item, participating in the vote; which votes shall not include abstaining votes; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the Company.

A shareholder shall notify the Company on the Deed of Vote submitted to the Company at the address above at least four (4) hours prior to the time of the AGM or if voted electronically, no later than four (4) hours before the time fixed for the AGM, whether the shareholder is a Controlling Party in the Company or the shareholder has a Personal Interest in the approval of item 8 on the agenda or not, as a condition for that shareholder's right to vote and be counted with respect to this item.

The Board of Directors recommends a vote FOR approval of these proposed resolutions.

RESTRICTIONS ON VOTING RIGHTS

Partner conducts its operations pursuant to licenses granted to Partner, directly or indirectly, by the Minister of Communications of the State of Israel (including the License). Partner's Articles of Association and, with respect to shareholders other than shareholders of Partner prior to its public offering, the License contains provisions that may cause the suspension of voting rights of the holders of Ordinary Shares or ADSs if such voting rights would breach the ownership limits contained in the License. These limits prohibit the transfer or acquisition of 10% or more of Partner's means of control and acquisition of control of the Company without the consent of the Minister of Communications of Israel, and restrict cross-control and cross-ownership of other mobile telephone operators in Israel, and shareholdings and agreements which may reduce or harm competition. Ordinary Shares or Ordinary Shares represented by ADSs held in breach of these limits may be considered dormant shares. Notwithstanding anything to the contrary in this Proxy Statement, dormant shares will not bear any rights to which the holders would otherwise be entitled, other than the right to receive dividends and other distributions to shareholders (including the right to participate in rights offerings). Specifically, the holders of dormant shares will not have voting rights with respect to their dormant shares, nor will they have the right to participate in general meetings of shareholders. Under certain licenses granted, to Partner, directly or indirectly, approval of, or notice to, the Minister of Communications of the State of Israel may be required for holding of 5% or more of Partner's means of control.

Any shareholder seeking to vote at the EGM must notify the Company prior to the vote, or indicate on the Deed of Vote (if a shareholder is seeking to vote by Deed of Vote), or indicate on the Deed of Authorization (if a shareholder is seeking to appoint a proxy by a Deed of Authorization), if any of the shareholder's holdings in Partner or the shareholder's vote require the consent of the Minister of Communications due to a breach by the shareholder of the restrictions on the transfer or acquisition of means of control or acquisition of control of Partner, or the provisions regarding cross-ownership or cross-control of other mobile telephone operators in Israel, in each case as specified in Sections 21 and 23 of the License (a translation of Sections 21-24 of the License is attached hereto as Annex "D"). If a shareholder does not provide such notification, the shareholder shall not vote and, if the shareholder has voted, his vote shall not be counted.

By Order of the Board of Directors

Nomi Sandhaus, Adv.
Company Secretary

Dated: August 17, 2016

Annex "A"

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
2015 ANNUAL REPORT

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
2015 ANNUAL REPORT

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The amounts are stated in New Israeli Shekels (NIS) in millions.

REPORT OF INDEPENDENT REGISTERD PUBLIC ACCOUNTING FIRM
To the shareholders of
PARTNER COMMUNICATIONS COMPANY LTD.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of comprehensive income, of changes in equity and of cash flows present fairly, in all material respects, the financial position of Partner Communications Company Ltd and its subsidiaries at December 31, 2015 and 2014 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management and Board of Directors are responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting Appearing under item 15(b). Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and Board of Directors and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Tel-Aviv, Israel March 13, 2016	/s/ Kesselman & Kesselman Certified Public Accountants (Isr.) A member firm of PriceWaterhouseCoopers International Limited

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PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	New Israeli Shekels		Convenience translation into U.S. dollars (note 2b3)
		December 31,		
		2014	2015	2015
		In millions		
CURRENT ASSETS				
Cash and cash equivalents		663	926	237
Trade receivables	7	948	1,057	271
Other receivables and prepaid expenses		34	47	12
Deferred expenses – right of use	12	34	33	9
Inventories	8	138	120	31
Income tax receivable		*	2	1
		1,817	2,185	561
NON CURRENT ASSETS				
Trade receivables	7	418	492	126
Deferred expenses – right of use	12	97	20	4
Property and equipment	10	1,661	1,414	363
Licenses and other intangible assets	11	1,079	956	245
Goodwill	13	407	407	104
Deferred income tax asset	25	14	49	12
Prepaid expenses and other		3	3	1
		3,679	3,341	855
TOTAL ASSETS		5,496	5,526	1,416

* Representing an amount of less than 1 million.
The financial statements were authorized for issue by the board of directors on March 13, 2016.

Isaac Benbenishti	Ziv Leitman	Barry Ben-Zeev (Woolfson)
Chief Executive Officer	Chief Financial Officer	Director

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	New Israeli Shekels		Convenience translation into U.S. dollars (note 2b3)
		December 31,		
		2014	2015	2015
		In millions		
CURRENT LIABILITIES				
Current maturities of notes payable and borrowings	6,15	309	554	142
Trade payables		804	715	183
Payables in respect of employees		95	77	20
Other payables (mainly institutions)		43	45	12
Income tax payable		38	52	13
Deferred income with respect to settlement agreement with Orange	18		217	56
Other deferred revenues		35	28	7
Provisions	14	58	77	19
Derivative financial instruments	6	3	*	*
		1,385	1,765	452
NON CURRENT LIABILITIES				
Notes payable	6,15	1,733	1,190	305
Borrowings from banks and others	6,15	1,233	1,357	348
Liability for employee rights upon retirement, net	16	51	34	9
Dismantling and restoring sites obligation	14	35	36	8
Deferred income with respect to settlement agreement with Orange	18		108	28
Other non-current liabilities		16	16	4
Deferred income tax liability	25	4		
		3,072	2,741	702
TOTAL LIABILITIES		4,457	4,506	1,154
EQUITY	21			
Share capital – ordinary shares of NIS 0.01 par value: authorized – December 31, 2014 and 2015 – 235,000,000 shares; issued and outstanding -		2	2	1
December 31, 2014 – **156,072,945 shares				
December 31, 2015 – –**156,087,456 shares				
Capital surplus		1,102	1,102	282
Accumulated retained earnings		286	267	69
Treasury shares, at cost – December 31, 2014 – ***4,467,990 shares December 31, 2015 – ***4,461,975 shares		(351)	(351)	(90)
TOTAL EQUITY		1,039	1,020	262
TOTAL LIABILITIES AND EQUITY		5,496	5,526	1,416

* Representing an amount of less than 1 million.
** Net of treasury shares.
***Including shares held by trustee under the Company's Equity Incentive Plan, see note 21(a), such shares will become outstanding upon completion of vesting conditions, see note 21(b)

The accompanying notes are an integral part of the financial statements.

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF INCOME

		New Israeli Shekels			Convenience translation into U.S. dollars (note 2b3)
		Year ended December 31			
		2013	2014	2015	2015
	Note	In millions (except earnings per share)			
Revenues, net	5	4,519	4,400	4,111	1,054
Cost of revenues	5, 22	3,510	3,419	3,472	890
Gross profit		1,009	981	639	164
Selling and marketing expenses	22	462	438	417	107
General and administrative expenses	22	217	193	223	57
Income with respect to settlement agreement with Orange	18			61	16
Other income, net	23	79	50	47	12
Operating profit		409	400	107	28
Finance income	24	29	3	13	3
Finance expenses	24	240	162	156	40
Finance costs, net	24	211	159	143	37
Profit (loss) before income tax		198	241	(36)	(9)
Income tax expenses	25	63	79	4	1
Profit (loss) for the year		135	162	(40)	(10)
Earnings (loss) per share					
Basic	27	0.87	1.04	(0.26)	(0.06)
Diluted	27	0.86	1.04	(0.26)	(0.06)

The accompanying notes are an integral part of the financial statements.

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		New Israeli Shekels			Convenience translation into U.S. dollars (note 2b3)
		Year ended December 31			
		2013	2014	2015	2015
	Note	In millions			
Profit (loss) for the year		135	162	(40)	(10)
Other comprehensive income (loss), items that will not be reclassified to profit or loss					
Remeasurements of post-employment benefit obligations	16	(9)	(9)	5	1
Income taxes relating to remeasurements of post-employment benefit obligations	25	2	2	(1)	*
Other comprehensive income (loss) for the year, net of income taxes		(7)	(7)	4	1
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		128	155	(36)	(9)

* Representing an amount of less than 1 million.

The accompanying notes are an integral part of the financial statements.

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital Number of Shares**	Amount	Capital surplus	Accumulated earnings (deficit)	Treasury shares	Total
		In millions				
New Israeli Shekels:						
BALANCE AT JANUARY 1, 2013	155,645,708	2	1,100	(10)	(351)	741
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2013						
Total comprehensive income for the year				128		128
Exercise of options granted to employees	41,294	*	*			*
Employee share-based compensation expenses				5		5
BALANCE AT DECEMBER 31, 2013	155,687,002	2	1,100	123	(351)	874
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2014						
Total comprehensive income for the year				155		155
Exercise of options granted to employees	385,943	*	2			2
Employee share-based compensation expenses				8		8
BALANCE AT DECEMBER 31, 2014	156,072,945	2	1,102	286	(351)	1,039
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2015						
Total comprehensive loss for the year				(36)		(36)
Exercise of options and restricted shares granted to employees	14,511	*	*		*	*
Employee share-based compensation expenses				17		17
BALANCE AT DECEMBER 31, 2015	156,087,456	2	1,102	267	(351)	1,020
Convenience translation into U.S. Dollars (note 2b3):						
BALANCE AT JANUARY 1, 2015	156,072,945	1	282	73	(90)	266
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2015						
Total comprehensive loss for the year				(9)		(9)
Exercise of options and restricted shares granted to employees	14,511	*	*		*	*
Employee share-based compensation expenses				5		5
BALANCE AT DECEMBER 31, 2015	156,087,456	1	282	69	(90)	262

* Representing an amount of less than 1 million.
** Net of treasury shares.

The accompanying notes are an integral part of the financial statements.

(Continued)-- 1

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

		New Israeli Shekels			Convenience translation into U.S. dollars (note 2b3)
		Year ended December 31			
		2013	2014	2015	2015
	Note	In millions			
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (Appendix)		1,548	1,017	955	244
Income tax paid	25	(9)	(66)	(33)	(8)
Net cash provided by operating activities		1,539	951	922	236
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property and equipment	10	(326)	(287)	(216)	(55)
Acquisition of intangible assets	11	(156)	(145)	(143)	(37)
Interest received	24	8	4	3	1
Proceeds from sale of property and equipment	23	1	1	1	*
Investment in PHI	9			(1)	*
Proceeds from (repayment of) derivative financial instruments, net	6	(25)	(4)	*	*
Net cash used in investing activities		(498)	(431)	(356)	(91)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from exercise of stock options granted to employees	21	*	2	*	*
Repayment of finance lease		(1)			
Interest paid	23	(181)	(131)	(137)	(35)
Non-current borrowings received	6,15		200	675	173
Repayment of non-current borrowings	6,15	(617)	(100)	(533)	(137)
Repayment of notes payable	6,15	(309)	(309)	(308)	(79)
Net cash used in financing activities		(1,108)	(338)	(303)	(78)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(67)	182	263	67
CASH AND CASH EQUIVALENTS ATBEGINNING OF YEAR		548	481	663	170
CASH AND CASH EQUIVALENTS AT END OF YEAR		481	663	926	237

* Representing an amount of less than 1 million.

The accompanying notes are an integral part of the financial statements.

(Concluded) - 2

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)

Appendix – Cash generated from operations and supplementary information

	Note	New Israeli Shekels			Convenience translation into U.S. dollars (note 2b3)
		Year ended December 31,			
		2013	2014	2015	2015
		In millions			
Cash generated from operations:					
Profit (loss) for the year		135	162	(40)	(10)
Adjustments for:					
Depreciation and amortization (including impairment)	10, 11, 13	669	652	641	165
Amortization (including impairment) of deferred expenses - Right of use	12, 13	31	37	112	28
Amortization of employee share based compensation	21	5	8	17	4
Liability for employee rights upon retirement, net	16	(14)	(3)	(12)	(3)
Finance costs, net	24	49	4	(8)	(2)
Change in fair value of derivative financial instruments	6	12	7	(2)	(1)
Interest paid	24	181	131	137	35
Interest received	24	(8)	(4)	(3)	(1)
Deferred income taxes	25	17	4	(40)	(10)
Income tax paid	25	9	66	33	8
Capital gain from property and equipment	10	(1)	(1)	*	*
Changes in operating assets and liabilities:					
Decrease (increase) in accounts receivable:					
Trade	7	566	(26)	(183)	(47)
Other		2	8	(13)	(3)
Increase (decrease) in accounts payable and accruals:					
Trade		(115)	44	(5)	(2)
Other payables		(17)	(4)	(12)	(3)
Provisions	14	7	(9)	19	5
Deferred income with respect to settlement agreement with Orange	18			325	83
Other deferred revenues		(3)	(2)	(6)	(1)
Increase in deferred expenses - Right of use	12	(17)	(22)	(34)	(9)
Current income tax liability	25	35	10	11	3
Decrease (increase) in inventories	8	5	(45)	18	5
Cash generated from operations:		1,548	1,017	955	244

* Representing an amount of less than 1 million.

Supplementary information

At December 31, 2013, 2014 and 2015, trade and other payables incl1ude NIS 223 million, NIS 214 million and NIS 126 million ($32 million), respectively, in respect of acquisition of intangible assets and property and equipment; payments in respect thereof are presented in cash flows from investing activities.

These balances are recognized in the cash flow statements upon payment.

The accompanying notes are an integral part of the financial statements.

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

a. Reporting entity

Partner Communications Company Ltd. ("the Company", "Partner") is a leading Israeli provider of telecommunications services under the orange™ brand until February 15, 2016, and under the Partner brand thereafter, and under the 012 Smile brand. The Company is incorporated and domiciled in Israel and its principal executive office’s address is 8 Amal Street, Afeq Industrial Park, Rosh-Ha'ayin 48103, Israel.

The Company's share capital consists of ordinary shares, which are traded on the Tel Aviv Stock Exchange Ltd. ("TASE") under the symbol "PTNR". American Depositary Shares ("ADSs"), each representing one of the Company’s ordinary shares, are quoted on the NASDAQ Global Select Market™, under the symbol "PTNR". See also note 21(a).

On January 29, 2013, S.B. Israel Telecom Ltd., an affiliate of Saban Capital Group Inc., became the Company's principal shareholder. Until January 29, 2013, the ultimate parent company was Suny Electronics Ltd., which is the parent company of Scailex Corporation Ltd, which was the Company's parent since October 28, 2009 ("Scailex"), see note 26 (a).

In November 2013, the Company and Hot Mobile Ltd ("Hot Mobile") entered into a network sharing agreement ("NSA") and a right of use agreement. Pursuant to the NSA, the parties created a 50-50 limited partnership - P.H.I. Networks (2015) Limited Partnership (Hereinafter "PHI"), which will operate and develop a radio access network to be shared by both parties, starting with a pooling of both parties' radio access network infrastructures to create a single shared pooled radio access network. PHI began its operations in July 2015. See note 9 and note 2(c)(2).

In September 2014, the Company recognized the general labor organization - the Histadrut New General Labor Organization, as the representative labor union of the Company's employees. See note 22(d).

The Company announced that it had given notice to Orange Brand Services Ltd ("Orange") of its decision to settle the Orange brand license agreement, see note 18.

These consolidated financial statements of the Company as of December 31, 2015, are comprised of the Company and its subsidiaries and partnerships (the "Group"). See the list of subsidiaries and partnerships and principles of consolidation in note 2(c)(1), see also 2(c)(2) with respect to investment in PHI.

b. Operating segments

The operating segments were determined based on the reports reviewed by the Chief Executive Officer (CEO) who is responsible for allocating resources and assessing performance of the operating segments, and therefore is the Chief Operating Decision Maker ("CODM"), and supported by budget and business plans structure, different regulations and licenses (see (d) below), as well as managerial responsibilities. The CEO considers the business from two operating segments, as follows (see also note 5):

(1) Cellular segment

The cellular segment includes cellular communication services such as airtime calls, international calls, messaging, browsing, content services, roaming services, and from other operators' usage of the Company's cellular network. Most of post-paid cellular tariff plans for private customers are bundles which include unlimited amounts of calls

minutes and messaging, as well as browsing packages. Content services include voice mail, multimedia messaging and streaming broadcast content, as well as downloadable wireless data applications, including ringtones, GPS services, music, games, and other informational content.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL (continued)

b. Operating segments (continued)

Roaming services include calls, messaging and browsing services on networks with which the Company has a commercial roaming relationship. Other optional services, such as equipment extended warranty plans are also provided for monthly fees and are either sold separately or included in rate plan packages and bundles.

(2) Fixed-line segment
The fixed-line segment includes: (1) Internet services under which the Group provides access to the internet (both network infrastructure services using Bezeq's network as described in (c)(1) below, and access services ("ISP")) as well as home WiFi networks, including Value Added Services ("VAS") such as anti-virus and anti-spam filtering; and fixed-line voice communication services provided through Voice Over Broadband ("VOB"), SIP voice trunks and Network Termination Point Services ("NTP") – under which the Group supply, install operate and maintain all types of endpoint network equipment and solutions, including providing and installing equipment and cabling, within a subscriber's place of business or premises. (2) Transmission services, Primary Rate Interface ("PRI"); (3) International Long Distance call services ("ILD"): outgoing and incoming international telephony, hubbing, roaming and signaling and calling card services.

The cellular segment and the fixed-line segment also include sales of telecommunications, audio visual and related devices: mainly cellular handsets, tablets (handheld computers), laptops, landline phones, modems, datacards, domestic routers, servers, smartboxes and related equipment, and a variety of digital audio visual equipment including televisions, digital camera, games consoles and related equipment.

Each segment is divided into services and equipment sales revenues, and the related cost of revenues. The operating segments include the following measures: revenues, cost of revenues, operating profit (loss), and Earnings Before Interest expenses (finance costs, net), Tax, Depreciation, Amortization (including amortization of intangible assets, deferred expenses-right of use, and amortization of share based compensation) and impairment charges ("Adjusted EBITDA" see note 5 (2)). The CODM does not examine assets or liabilities for those segments separately for allocating resources and assessing performance of the operating segments therefore they are not presented in note 5 segment information.

c. Main recent regulatory developments

(1) In February 2015 a regulation came into effect according to which each of the infrastructure owners - Bezeq and Hot are required to allow use of their broadband fixed-line infrastructure by telecommunication providers that do not have a broadband fixed-line infrastructure. This regulation allows telecommunication providers that do not have a broadband fixed-line infrastructure, including the Company and its subsidiaries, to offer internet access in one transaction (without requiring the subscriber to engage with both an internet access provider and an infrastructure provider). As a result, the Group commenced selling offers including both network infrastructure services using Bezeq's network and internet access service. Regulations about the above with respect to Hot are not completed yet.

(2) See information in respect of frequency fees in note 17(1).

(3) See information in respect of corporate tax rates in note 25.

(4)See information in respect of 4G frequency awarded in note 1(d).

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL (continued)

d. Group licenses

The Group operates under the following licenses that were received from the Israeli Ministry of Communications ("MOC") and from the Israeli Civil Administration ("CA"):

	Type of services	Area of service	License owner	Granted by	Valid through	Guarantees made
(1)	Cellular	Israel	Partner Communications Company Ltd.	MOC	Feb, 2022	NIS 90 million
(2)	Cellular	West Bank	Partner Communications Company Ltd.	CA	Feb, 2022	USD 0.5 million
(3)	ISP	Israel	Partner Communications Company Ltd.	MOC	Mar, 2018	
(4)	ISP	West Bank	Partner Communications Company Ltd.	CA	Mar, 2018	
(5)	ISP	Israel	012 Smile Telecom Ltd.	MOC	Jun, 2020	
(6)	ISP	West Bank	012 Smile Telecom Ltd.	CA	Feb, 2016 (*)	
(7)	ILD	Israel	012 Smile Telecom Ltd.	MOC	Nov, 2029	NIS 10.8 million
(8)	ILD	West Bank	012 Smile Telecom Ltd.	CA	Feb, 2018	NIS 0.6 million
(9)	Fixed	Israel	012 Telecom Ltd.	MOC	Dec, 2025	NIS 12 million
(10)	Fixed	West Bank	012 Telecom Ltd.	CA	Feb, 2018	
(11)	Fixed	Israel	Partner Land-line Communication Solutions - Limited Partnership	MOC	Jan, 2027	NIS 11.8 million
(12)	Fixed	West Bank	Partner Land-line Communication Solutions - Limited Partnership	CA	Mar, 2019	
(13)	NTP	Israel	Partner Land-line Communication Solutions - Limited Partnership	MOC	Feb, 2017	
(14)	NTP	Israel	012 Smile Telecom Ltd.	MOC	Dec, 2020	

With respect to license (1), the Company is entitled to request an extension of the license for an additional period of six years and then renewal for one or more additional 6 year periods, at the discretion of the MOC. Should the license not be renewed, the new license-holder is obliged to purchase the communications network and all the rights and obligations of the subscribers for a fair price, as agreed between the parties or as determined by an arbitrator.

Other licenses may be extended for various periods, at the discretion of the MOC or CA, respectively.

The Group believes that it will be able to receive extensions to the licenses upon request.

See also note 17(6) as to additional guarantees made to third parties.

On January 13, 2015 the Company was awarded an additional frequency bandwidth of 5MHz in the 1800MHz spectrum, for a consideration of NIS 33.5 million, as part of the 4G frequencies tender of the MOC.

(*) 012 Smile Telecom Ltd. wasgranted a special license to provide ISP services to the Israeli populated areas in the West Bank which was valid until February 2016 and is expected to be replaced with a new license. Until the new license is granted, 012 Smile Telecom Ltd have been permitted by the Civilian Administration in the West Bank to continue providing the services.

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the financial statements

(1) Basis of preparation

The consolidated financial statements of the Company ("the financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB).

The principal accounting policies set out below have been consistently applied to all periods presented unless otherwise stated.

(2) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, and requires management to exercise its judgment in the process of applying the Group's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Foreign currency translations

(1) Functional and presentation currency
The consolidated financial statements are measured and presented in New Israeli Shekels ("NIS"), which is the Group's functional and presentation currency as it is the currency of the primary economic environment in which the Group operates. The amounts presented in NIS millions are rounded to the nearest NIS million.

(2) Transactions and balances
Foreign currency transactions are translated into NIS using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement in finance costs, net.

(3) Convenience translation into U.S. Dollars (USD or $ or dollar)
The NIS figures at December 31, 2015 and for the period then ended have been translated into dollars using the representative exchange rate of the dollar at December 31, 2015 (USD 1 = NIS 3.902). The translation was made solely for convenience, is supplementary information, and is distinguished from the financial statements. The translated dollar figures should not be construed as a representation that the Israeli currency amounts actually represent, or could be converted into, dollars.

c. Interests in other entities

(1) Subsidiaries

The consolidated financial statements include the accounts of the Company and entities controlled by the Company. Control exists when the Company has the power over the investee; has exposure, or rights, to variable returns from involvement in the investee; and has the ability to use its power over the investee to affect its returns. Subsidiaries and partnerships are fully consolidated from the date on which control is transferred to the Company.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated in preparing the consolidated financial statements.

List of wholly owned Subsidiaries and partnerships:
012 Smile Telecom Ltd.
012 Telecom Ltd.
Partner Land-Line Communication Solutions - Limited Partnership
Partner Future Communications 2000 Ltd. ("PFC")
Partner Business Communications Solution - Limited Partnership – not active
Partner Net Ltd. – not active
012 Mobile GP Ltd. – not active
Golden Lines 012 Telecommunication Services 2001 Ltd. – not active
012 Mobile Limited Partnership – not active

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Interests in other entities (continued)

(2) Investment in PHI

In November 2013, the Company and Hot Mobile Ltd entered into a network sharing agreement ("NSA") and a right of use agreement. Pursuant to the NSA, the parties created a 50-50 limited partnership - P.H.I. Networks (2015) Limited Partnership ("PHI"), which will operate and develop a radio access network to be shared by both parties, starting with a pooling of both parties' radio access network infrastructures to create a single shared pooled radio access network. PHI began its operations in July 2015, managing the networks. See also note 9.

As described in note 4(b)(3) the Company does not control PHI nor does it have joint control over it, and the Company accounts for its investment in PHI according to the equity method as PHI is considered an associate. An associate is an entity over which the group has significant influence but not control. Investment in associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and adjusted thereafter to recognize the investor’s share of the post-acquisition profits or losses of the investee in profit or loss, and the group’s share of movements in other comprehensive income of the investee in other comprehensive income.

Unrealized gains on transactions between the Group and the associate are eliminated to the extent of the Group’s interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

See also note 26(f) for information about transactions and balances with respect to the investment in PHI.

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Inventories

Inventories of equipment: cellular handsets and fixed telephones, tablets, laptops, datacards, servers, spare parts, ISP modems, related equipment, accessories and other inventories are stated at the lower of cost or net realizable value. Cost is determined on the "first-in, first-out" basis. The Group determines its allowance for inventory obsolescence and slow moving inventory based upon past experience, expected inventory turnover, inventory ageing and current and future expectations with respect to product offerings.

e. Property and equipment

Property and equipment are initially stated at cost.

Costs are included in the assets' carrying amounts or recognized as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance that do not meet the above criteria are charged to the statement of income during the financial period in which they are incurred.

Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Changes in the obligation to dismantle and remove assets on sites and to restore the sites, on which they are located, other than changes deriving from the passing of time, are added or deducted from the cost of the assets in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount on the date of change, and any balance is recognized immediately in profit or loss, See (m)(2) below.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Property and equipment is presented less accumulated depreciation, and accumulated impairment losses. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (see (i) below).

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Property and equipment (continued)

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

	years
Communications network:	
Physical layer and infrastructure	10 - 25 (mainly 15, 10)
Other Communication network	3 - 15 (mainly 5, 10, 15)
Computers, software and hardware for	
information systems	3-10 (mainly 3-5)
Office furniture and equipment	7-15
Optic fibers and related assets	7-25 (mainly 20)
Property	25

Leasehold improvements are depreciated by the straight-line method over the term of the lease (including reasonably assured option periods), or the estimated useful life (5-10 years) of the improvements, whichever is shorter.

See note 13(2) with respect of impairment charges in 2015.

f. Licenses and other intangible assets

(1) Licenses costs and amortization (see also note 1 (d)):

(a) The licenses to operate cellular communication services were recognized at cost. Borrowing costs which served to finance the license fee - incurred until the commencement of utilization of the license - were capitalized to cost of the license.

(b) Partner Land-line Communication solutions – limited partnership's license for providing fixed-line communication services is stated at cost.

(c) 012 Smile and its subsidiaries' licenses were recognized at fair value in a business combination as of the acquisition date of 012 Smile March 3, 2011.

The other licenses of the Group were received with no significant costs.

The licenses are amortized by the straight-line method over their useful lives (see note 1 (d)) excluding any ungranted possible future extensions that are not under the Group's control. The amortization expenses are included in the cost of revenues.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Licenses and other intangible assets (continued)

(2) Computer software:

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and to bring to use the specified software.

Development costs, including employee costs, that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the capitalization criteria under IAS 38 are met. Other development expenditures that do not meet the capitalization criteria, such as software maintenance, are recognized as an expenses as incurred.

Computer software costs are amortized over their estimated useful lives (3 to 10 years) using the straight-line method, see also note 11.

(3) Customer relationships:

The Company has recognized as intangible assets customer relationships that were acquired in a business combination and recognized at fair value as of the acquisition date. Customer relationships are amortized to selling and marketing expenses over their estimated useful economic lives (5 to 10 years) based on the straight line method. See note 13(2) with respect of impairment charges in 2015.

(4) 012 Smile trade name:

Trade name was acquired in a business combination. In 2015, the Group decided to cease the usage of the "012 Smile" trade name in 2017.As a result the Group revised its expected useful life to end in 2017 as a change in accounting estimate. As a result the amortization expenses of the 012 Smile trade name increased in 2015 by NIS 1 million, and are expected to increase in 2016 and 2017 by approximately NIS 16 million and NIS 6 million respectively, see note 4 (a) (3). See note 13(2) with respect of impairment charges to the 012 Smile trade name in 2015 in an amount of NIS 2 million.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Licenses and other intangible assets (continued)

(5) Subscriber Acquisition and Retention Costs (SARC):

Costs to acquire or retain postpaid mobile telecommunication subscribers, less the subscriber's payments towards the handset, pursuant to a contract with a commitment period and early termination penalties, are capitalized to intangible assets, if (1) such assets are identifiable and controlled; (2) it is probable that future economic benefits will flow from the subscribers to the Group; and (3) such costs can be measured reliably. If costs do not meet the aforementioned criteria they are recognized immediately as expenses.

In the event that a subscriber churns off the network or the arrangement is cancelled within the period, any unamortized subscriber acquisition or retention costs are written off in the period in which the subscriber churns. The amortization expenses are included in the cost of revenues.

g. Right Of Use (ROU)

Right of use (ROU) of international fiber optic cables was acquired in a business combination, subsequent additions are recognized at cost. The ROU is presented as deferred expenses (current and non-current) and is amortized on a straight line basis over a period beginning each acquisition of additional ROU in this framework and until 2027 (including expected contractual extension periods). See also notes 12 and 17(4).

See note 13(2) with respect of impairment charges to ROU in 2015 in an amount of NIS 76 million.

Other costs of right to use other assets in an immaterial amount is presented as deferred expenses and amortized on a straight line basis over the assets useful lives.

h. Goodwill

Goodwill acquired in a business combination represents the excess of the consideration transferred over the net fair value of the identifiable assets acquired, and identifiable liabilities and contingent liabilities assumed. The goodwill has an indefinite useful economic life and is not subject to amortization; rather is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to a group of CGUs under the fixed line segment that is expected to benefit from the synergies of the combination. The group of CGUs represents the lowest level within the entity which the goodwill is monitored for internal management purposes.

PARTNER COMMUNICATIONS COMPANY LTD.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Goodwill (continued)

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment loss would be recognized for the amount by which the carrying amount of goodwill exceeded its recoverable amount. The recoverable amount is the higher of value-in-use and the fair value less costs to sell. Value-in-use is determined by discounting expected future cash flows using a pre-tax discount rate. Any impairment is recognized immediately as an expense and is not subsequently reversed. See also note 13(1) in respect of impairment tests.

i. Impairment of non-financial assets with finite useful economic lives

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such indications exist an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. Value-in-use is determined by discounting expected future cash flows using a pre-tax discount rate.

An impairment loss recognized in prior periods for an asset (or CGU) other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's (or CGU's) recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset (or CGU) shall be increased to its recoverable amount. The increased carrying amount of an asset (or CGU) other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the statement of income.

The Group recorded in 2015 impairment charges of intangible assets, deferred expenses – right of use, and fixed assets, see note 13 (2) and note 4 (a) (3)

j. Financial instruments

The Group classifies its financial instruments in the following categories: (1) at fair value through profit or loss, (2) loans and receivables, and (3) liabilities at amortized cost. See note 6 (c) as to classification of financial instruments to the categories.

Financial assets are classified as current if they are expected to mature within 12 months after the end of the reporting period; otherwise they are classified as non-current. Financial liabilities are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current liabilities.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legal enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legal enforceable right must not be contingent on future events

and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

PARTNER COMMUNICATIONS COMPANY LTD.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Financial instruments (continued)

(1) Financial instruments at fair value through profit or loss category:
Gains or losses arising from changes in the fair value of derivative financial instruments are presented in the income statement within "finance costs, net" in the period in which they arise. These financial instruments are classified into 2 levels based on their valuation method (see also note 6(c)):

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices).

(2) Loans and receivables category:
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized initially at fair value and subsequently measured at amortized costs using the effective interest method, less any impairment loss.

Cash and cash equivalents are highly liquid investments, which include short-term bank deposits (up to 3 months from date of deposit) that are not restricted as to withdrawal or use.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. Trade receivables are presented net of allowance for doubtful accounts. Individual receivables which are known to be uncollectable are written off by reducing the carrying amount directly. The other receivables are assessed collectively. For these receivables the allowance is determined based on percentage of doubtful debts in collection, considering the likelihood of recoverability based on the age of the balances, the historical write-off experience net of recoveries, changes in the credit worthiness, and collection trends.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership of the assets. The Company factors trade receivables resulting from sales of equipment by credit cards. The factoring is on a non-recourse basis. The factoring of accounts receivable is recorded by the Company as a sales transaction. The results of the factoring transaction are charged to financial income and expenses on the settlement date.

(3) Financial liabilities and borrowings at amortized cost category:
Financial liabilities at amortized cost are non-derivative financial instruments with fixed or determinable payment, including trade payables. Financial liabilities at amortized cost are recognized initially at fair value, net of transaction costs, and subsequently measured at amortized costs using the effective interest method.

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Employee benefits

(i) Post-employment benefits

1. Defined contribution plan
According to Section 14 of the Israeli Severance Pay Law the Group's liability for some of the employee rights upon retirement is covered by regular contributions to various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds. These plans are defined contribution plans, since the Group pays fixed contributions into a separate and independent entity. The Group has no legal or constructive obligations to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current or prior periods. The amounts funded as above are not reflected in the statement of financial position. Obligations for contributions to defined contribution pension plans are recognized as an expense in the statement of income when they are due.

2. Defined benefit plan
Labor laws, agreements and the practice of the Group, require paying retirement benefits to employees dismissed or retiring in certain other circumstances (except for those described in 1 above), measured by multiplying the years of employment by the last monthly salary of the employee (i.e. one monthly salary for each year of tenure), the obligation of the Group to pay retirement benefits is treated as a defined benefit plan.

The liability recognized in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at end of the reporting period less the fair values of plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. According to IAS 19 employee benefits, the present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of deep market for high-quality corporate bonds.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Interest costs in respect of the defined benefit plan are charged or credited to finance costs.

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Employee benefits (continued)

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably legally or constructively committed either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(iii) Short term employee benefits

1. Vacation and recreation benefits

The employees are legally entitled to vacation and recreation benefits, both computed on an annual basis. This entitlement is based on the term of employment. This obligation is treated as a short term benefit under IAS 19. The Group charges a liability and expense due to vacation and recreation pay, based on the benefits that have been accumulated for each employee, on an undiscounted basis.

2. Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses based on consideration of individual performance and the Group's overall performance. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

l. Share based payments

The Group operates an equity-settled share-based compensation plan, under which the Group receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, at the grant date. It is recognized over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of equity instruments that are expected to vest based on the vesting conditions, and recognizes the impact of the revision of original estimates, if any, in the statement of income, with corresponding adjustment to accumulated deficit.

The proceeds received net of any directly attributable transactions costs are credited to share capital and capital surplus when the equity instruments are exercised.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will require settling the obligation, and the amount has been reliably estimated. See also note 14.

(1) In the ordinary course of business, the Group is involved in a number of lawsuits and litigations. The costs that may result from these lawsuits are only accrued for when it is probable that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, and events arising during the course of legal proceedings that may require a reassessment of this risk, and where applicable discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Group's assessment of risk is based both on the advice of legal counsel and on the Group's estimate of the probable settlements amount that are expected to be incurred, if any. See also note 20.

(2) The Company is required to incur certain costs in respect of a liability to dismantle and remove assets and to restore sites on which the assets were located. The dismantling costs are calculated according to best estimate of future expected payments discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as finance costs (unwinding of discount).

(3) Provisions for equipment warranties include obligations to customers in respect of equipment sold. Where there are a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Revenues

The Group's revenues are measured at fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business. Revenue is presented net of Value-Added-Tax, returns, rebates and discounts, and intercompany revenues. The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described herein.

(1) Revenues from services:

Revenues from services (see note 1(b)) are recognized when the services are rendered, and all other revenue recognition criteria are met.

Revenues from pre-paid calling cards sold to customers are recognized upon the earlier of customer's usage of the cards, or expiration.

The Group records payments received in advance for services and services to be provided under contractual agreements, such as transmission services, as deferred income until such related services are provided.

The Group determines whether it is acting as a principal or as an agent. The Group is acting as a principal if it has exposure to the significant risks and rewards associated with the rendering of services. Features that indicate that the Group is acting as a principal include: (a) the Group has the primary responsibility for providing the services to the customer or for fulfilling the order; (b) the Group has latitude in establishing prices, either directly or indirectly; and (c) the Group bears the customer's credit risk for the amount receivable from the customer. On the other hand, the Group is acting as an agent or an intermediary, if it does not have exposure to the significant risks and rewards associated with the rendering of services. One feature indicating that the Group is acting as an agent is that the amount the Group earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer. Based on the above considerations the Group determined that it is acting as an agent in respect of certain content services provided by third parties to customers, and therefore the revenues recognized from these services are presented on a net basis in the statement of income.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Revenues (continued)

(2) Revenues from sales of equipment:

Revenue from sale of equipment includes revenue from sale of handsets, routers, phones, tablets, laptops, modems, data cards, servers, smartboxes, audio-visual devices, related accessories, other devices and equipment. Revenue is recognized when the significant risks and reward of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement in regards to the goods, and the amount of revenue can be measured reliably.

Some sales of equipment with accompanying services constitute a revenue arrangement with multiple deliverables. Accordingly, consideration received is allocated to each deliverable based on the relative fair value of the individual element. The revenue from sales of equipment is recognized as equipment revenues upon the delivery of the equipment to the subscriber when all revenue recognition criteria are met.

The Company subsidizes, in some cases, the sale of the handset to end subscribers by selling it at a price below its cost to secure a fixed-term service contract for the purpose of acquiring new subscribers or retaining existing subscribers. The handset sale is then treated as a non-revenue-generating transaction and accordingly, no revenue is recognized from these types of handset sales. The subsidy, and direct selling expenses are capitalized as elements of subscriber acquisition and retention costs in accordance with accounting policy set out in note (f)(5) above. The subsidy represents the difference between the cost of the handset and the payment received from the subscriber for the handset.

(3) Revenues from non-current credit arrangements:

Revenues from non-current credit arrangements to customers in respect of sales of equipment are recognized on the basis of the present value of future cash flows, discounted at the prevailing rate for a similar instrument of an issuer with a similar credit rating. The difference between the original credit and its present value is recorded as other income over the credit period (see note 23 – unwinding of trade receivables and note 7(a)).

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from lessor) are charged to income statements on a straight-line basis over the lease term, including extending options which are reasonably certain.

p. Advertising expenses

Advertising expenses are charged to the statement of income as incurred. Advertising expenses for the years ended December 31, 2013, 2014 and 2015 totaled NIS 53 million, NIS 49 million and NIS 29 million, respectively.

q. Tax expenses

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted as of the end of the reporting period. Management periodically evaluates positions taken with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between that tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from initial recognition of goodwill. Deferred income tax is determined using the tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets are presented as non-current, see also note 25.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity where there is an intention to settle the balances on a net basis.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Share capital

Ordinary shares are classified as equity.

Company's shares acquired by the Company (treasury shares) are presented as a reduction of equity, at the consideration paid, including any incremental attributable costs, net of tax. Treasury shares do not have a right to receive dividends or to vote. See also note 21(a)

s. Earnings Per Share (EPS)

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume exercise of all dilutive potential ordinary shares. The instruments that are potential dilutive ordinary shares are equity instruments granted to employees. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options (see note 27).

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The following relevant new standards, amendments to standards or interpretations have been issued, but are not effective for the financial periods beginning January 1, 2015, and have not been early adopted:

(1) IFRS 15, Revenue from Contracts with Customers (IFRS 15). IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. IFRS 15 is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

Management is currently assessing the impact of the new rules and has identified the following areas that are likely to be affected: Sales commissions where the new guidance may result in identification of them as contract cost assets which could affect the timing of the recognition of those costs, instead of capitalizing subscriber acquisition and retention costs; allocation of revenues to performance obligations could affect the timing of revenue recognition. The new standard is effective retrospectively for annual reporting periods beginning on or after January 1, 2018, according to its transition provisions. Earlier application is permitted. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application (e.g. January 1, 2017), i.e. without restating the comparative period; and applying the new rules to contracts that are not completed as of the date of initial application. At this stage, the Group is still evaluating the impact of the new rules on the Group's financial statements.

(2) IFRS 9, Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. It introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

(3) IFRS16, Leases, which replaces the current guidance in IAS 17. The standard requires lessees, with certain exceptions, to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for lease contracts. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15, Revenue from Contracts with Customers, is also applied. The Group is yet to assess IFRS 16's full impact.

(4) Amendments to IAS 1, Presentation of Financial Statements. The amendments provide clarifications about issues that include materiality, disaggregation and subtotals, order of presenting the notes, and disclosures about accounting policies. The amendment is effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Group assesses that the amendment's impact on the financial statements is not expected to be material.

(5) Amendments to IFRS 7, Financial Instruments: Disclosures. The first amendment provides guidance for transferred financial assets to help management to determine whether the terms of a servicing arrangement constitute 'continuing involvement'. The Second amendment clarifies the additional disclosures relating to the offsetting of financial assets and financial liabilities only required in interim reports if required by IAS 34. The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Group assesses

that the amendment's impact on the financial statements is not expected to be material.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 –CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a. Critical accounting estimates and assumptions

(1) Estimating service revenues earned but not yet billed:

The Company recognizes service revenues based upon minutes, seconds and packages 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 actual unbilled usage of the Company's network by the customers, and also on historical data and trends. Actual billing cycle results may differ from the results estimated at the end of each period depending on subscriber usage and rate plan mix.

(2) Assessing the useful lives of assets:

The useful economic lives of the Group's assets are an estimate determined by management. The Group defines useful economic life of its assets in terms of the assets' expected utility to the Group. This estimation is based on assumptions of future changes in technology or changes in the Group's intended use of these assets, and experience of the Group with similar assets, and legal or contract periods where relevant. The assets estimated economic useful lives are reviewed, and adjusted if appropriate, at least annually. See also note 2(e) and note 2(f). See also information with respect to the change in estimate of the useful life of the "012 Smile" trade name in (3) below.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 –CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a. Critical accounting estimates and assumptions (continued)

(3) Assessing the recoverable amount for impairment tests of assets with finite useful lives:

The Group is required to determine at the end of each reporting period whether there is any indication that an asset may be impaired. If indicators for impairment are identified the Group estimates the assets' recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. The value-in-use calculations require management to make estimates of the projected future cash flows. Determining the estimates of the future cash flows is based on management past experience and best estimate for the economic conditions that will exist over the remaining useful economic life of the CGU. See also note 2(i).

In the fourth quarter of 2015, the Group decided to cease the usage of the "012 Smile" trade name in 2017, this change in business induced the Group to determine that an indicator of impairment exists for the fixed-line segment. See note 13(2).

An Impairment test for the VOB/ISP CGU of the fixed line segment resulted in an impairment charge to certain assets in a total amount of NIS 98 million, based on the key assumptions described in note 13(2). The recoverable amount of the VOB/ISP CGU assets as of December 31, 2015 was assessed by management with the assistance of an external independent expert ("Giza Singer Even. Ltd") based on value-in-use calculations, which was NIS 250 million. The value in use calculations use pre-tax cash flow projections covering a five-year period and using extrapolation with specific adjustments expected until 2027, which is the economic life of the main asset of the CGU: the deferred expenses – Right of Use, and a pre-tax discount rate of 12.9%. The value-in-use calculations included all factors in real terms. The value-in-use of the assets of the CGU was estimated to exceed the fair value less costs to sale.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 –CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a. Critical accounting estimates and assumptions (continued)

(3) Assessing the recoverable amount for impairment tests of assets with finite useful lives (continued):

The impairment test was based on assessments of financial performance and future strategies in light of current and expected market and economic conditions. Trends in the economic and financial environment, competition and regulatory authorities' decisions, or changes in competitors' behavior in response to the economic environment may affect the estimate of recoverable amounts in future periods. See also note 2(i).

As a result of the decision to cease the usage of the "012 Smile" trade name the Group revised its expected useful life to end in 2017 as a change in accounting estimate. As a result the amortization expenses of the trade name increased in 2015 by NIS 1 million, and are expected to increase in 2016 and 2017 by approximately NIS 16 million and NIS 6 million respectively.

Further increase in the level of competition that will continue to push downward prices may require the Group to perform further impairment tests of assets. Such impairment tests may lead to recording significant impairment charges, which could have a material negative impact on the Group's operating and net profit.

(4) Assessing the recoverable amount of goodwill for impairment tests:

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The recoverable amount of the fixed line segment to which goodwill has been allocated to have been determined based on value-in-use calculations. For the purpose of the goodwill impairment tests as of December 31, 2013, 2014 and 2015 the recoverable amount was assessed by management with the assistance of an external independent expert ("Giza Singer Even. Ltd") based on value-in-use calculations. The value-in-use calculations use pre-tax cash flow projections covering a five-year period. Cash flows beyond the five-year period to be generated from continuing use are extrapolated using estimated growth rates. The growth rates do not exceed the long-term average growth rate of the fixed-line communications services business.

The key assumptions used in the December, 31, 2015 test were as follows:

Terminal growth rate	(negative 0.09%)
After-tax discount rate	10.3%
Pre-tax discount rate	13.4%

The impairment test as of December 31, 2015 was based on assessments of financial performance and future strategies in light of current and expected market and economic conditions. Trends in the economic and financial environment, competition and regulatory authorities' decisions, or changes in competitors' behavior in response to the economic environment may affect the estimate of recoverable amounts. See also note 13(1) and note 2(h). No impairment charges were recognized in with respect to goodwill in 2013, 2014 and 2015.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 –CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a. Critical accounting estimates and assumptions (continued)

(4) Assessing the recoverable amount of goodwill for impairment tests:

Sensitivity Analysis:

The headroom of the fixed line segment fair value over the book value as of December 31, 2013, 2014 and 2015 was approximately 9.5%, 15% and 9% respectively. Sensitivity analysis was performed for the recoverable amount as of December 31, 2015 for a change of the after-tax discount rate within the range of ± 10% multiplied by the variable 10.3% (9.3% to 11.3%), assuming all other variables constant. Sensitivity analysis was also performed for a change of the terminal permanent growth rate within the range of ± 1% of the variable minus 0.09% (minus 1.09% to 0.91%), assuming all other variables constant. Results showed that no impairment charge is required for both analysis. However, considering an extreme scenario whereby increasing the discount rate above 10.8% and simultaneously decreasing the permanent growth rate below minus 0.6% would indicate impairment.

(5) Assessing allowance for doubtful accounts:

The allowance is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, or delinquency or default in debtor payments are considered indicators that a trade receivable is impaired. Individual receivables which are known to be uncollectable are written off by reducing the carrying amount directly. The other receivables are assessed collectively. For these receivables the allowance is determined based on percentage of doubtful debts in collection, considering the likelihood of recoverability based on the age of the balances, the historical write-off experience net of recoveries, changes in the credit worthiness, and collection trends. The trade receivables are periodically reviewed for impairment.

(6) Considering uncertain tax positions:

The assessment of amounts of current and deferred taxes requires the Group's management to take into consideration uncertainties that its tax position will be accepted and of incurring any additional tax expenses. This assessment is based on estimates and assumptions based on interpretation of tax laws and regulations, and the Group's past experience. It is possible that new information will become known in future periods that will cause the final tax outcome to be different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. See also notes 2(q) and note 25.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

b. Critical judgments in applying the Group's accounting policies

(1) Considering the likelihood of contingent losses and quantifying possible settlements:
Provisions are recorded when a loss is considered probable and can be reasonably estimated. Judgment is necessary in assessing the likelihood that a pending claim or litigation against the Group will succeed, or a liability will arise, quantifying the possible range of final settlement. These judgments are made by management with the support of internal specialists, or with the support of outside consultants such as legal counsel. Because of the inherent uncertainties in this evaluation process, actual results may be different from these estimates.

(2) Considering sales with multiple deliverables:
The Group made judgments to determine that certain sales of equipment with accompanying services constitute an arrangement with multiple deliverables that are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole, and accordingly, consideration received is allocated to each deliverable based on the relative fair value of the individual element. See also note 2(n)(2).

(3) Accounting treatment for the investment in PHI:
The board of directors of Net 4 P.H.I Ltd. Consists of 3 directors nominated by the Company, 3 directors nominated by Hot Mobile and one independent director who will act as a chairman. Net 4 P.H.I Ltd controls PHI. This governance provides that the Company does not control PHI nor does it have joint control over it, and the Company accounts for its investment in PHI according to the equity method, see also note 2 (c) and note 9.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 – SEGMENT INFORMATION

	New Israeli Shekels Year ended December 31, 2015 In millions				
	Cellular segment	Fixed-line segment		Elimination	Consolidated
Segment revenue - Services	2,275	717			2,992
Inter-segment revenue - Services	22	189		(211)	
Segment revenue - Equipment	1,051	68			1,119
Total revenues	3,348	974		(211)	4,111
Segment cost of revenues - Services	1,856	736	(*)		2,592
Inter-segment cost of revenues- Services	187	24		(211)	
Segment cost of revenues - Equipment	832	48			880
Cost of revenues	2,875	808		(211)	3,472
Gross profit	473	166			639
Operating expenses	506	134	(*)		640
Income with respect to settlement agreement with Orange	61				61
Other income, net	44	3			47
Operating profit	72	35			107
Adjustments to presentation of Adjusted EBITDA					
–Depreciation and amortization (including impairment charges, see note 13)	510	243			753
–Other (1)	15	1			16
Adjusted EBITDA (2)	597	279			876
Reconciliation of Adjusted EBITDA to loss before income tax					
– Depreciation and amortization (including impairment charges, see note 13)					753
–Finance costs, net					143
–Other (1)					16
Loss before income tax					(36)

(*) Includes impairment charges in the fixed line segment, see Note 13.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 – SEGMENT INFORMATION (continued)

	New Israeli Shekels Year ended December 31, 2014 In millions			
	Cellular segment	Fixed-line segment	Elimination	Consolidated
Segment revenue - Services	2,592	816		3,408
Inter-segment revenue - Services	26	188	(214)	
Segment revenue - Equipment	938	54		992
Total revenues	3,556	1,058	(214)	4,400
Segment cost of revenues - Services	1,963	692		2,655
Inter-segment cost of revenues- Services	185	29	(214)	
Segment cost of revenues - Equipment	727	37		764
Cost of revenues	2,875	758	(214)	3,419
Gross profit	681	300		981
Operating expenses	509	122		631
Other income, net	49	1		50
Operating profit	221	179		400
Adjustments to presentation of Adjusted EBITDA				
–Depreciation and amortization	534	155		689
–Other (1)	7	*		7
Adjusted EBITDA (2)	762	334		1,096
Reconciliation of Adjusted EBITDA to profit before income tax				
- Depreciation and amortization				689
- Finance costs, net				159
- Other (1)				7
Profit before income tax				241

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PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 – SEGMENT INFORMATION (continued)

	New Israeli Shekels Year ended December 31, 2013 In millions			
	Cellular segment	Fixed-line segment	Elimination	Consolidated
Segment revenue – Services	2,876	908		3,784
Inter-segment revenue – Services	31	177	(208)	
Segment revenue – Equipment	703	32		735
Total revenues	3,610	1,117	(208)	4,519
Segment cost of revenues - Services	2,070	747		2,817
Inter-segment cost of revenues- Services	175	33	(208)	
Segment cost of revenues - Equipment	664	29		693
Cost of revenues	2,909	809	(208)	3,510
Gross profit	701	308		1,009
Operating expenses	544	135		679
Other income, net	77	2		79
Operating profit	234	175		409
Adjustments to presentation of Adjusted EBITDA				
–Depreciation and amortization	545	155		700
–Other (1)	5	*		5
Adjusted EBITDA (2)	784	330		1,114
Reconciliation of Adjusted EBITDA to profit before income tax				
- Depreciation and amortization				700
- Finance costs, net				211
- Other (1)				5
Profit before income tax				198

* Representing an amount of less than 1 million.

(1) Mainly amortization of employee share based compensation.

(2) Adjusted EBITDA as reviewed by the CODM represents Earnings Before Interest (finance costs, net), Taxes, Depreciation and Amortization (including amortization of intangible assets, deferred expenses-right of use, amortization of share based compensation and impairment charges), as a measure of operating profit. Adjusted EBITDA is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies. Adjusted EBITDA may not be indicative of the Group's historic operating results nor is it meant to be predictive of potential future results. The usage of the term "Adjusted EBITDA" is to highlight the fact that the Amortization includes amortization of deferred expenses – right of use and amortization of employee share based compensation and impairment charges; it is fully comparable to EBITDA information which has been previously provided for prior periods.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

a. Financial risk factors

The Group is exposed to a variety of financial risks: credit, liquidity and market risks as part of its normal course of business. The Group's risk management objective is to monitor risks and minimize the possible influence that results from this exposure, according to its evaluations and expectations of the parameters that affect the risks.

1. Risk Management

Risk management is carried out by the treasury department under policies and/or directions resolved and approved by the board of directors.

2. Market risks

(a) Description of market risks

Cash flow risk due to interest rate changes and CPI changes
The Group is exposed to fluctuations in the Israeli Consumer Price index (CPI), as some of the Group's non-current borrowings and notes payable are linked to the CPI. The Group did not enter into CPI hedging transactions in 2013, 2014 and 2015.

Furthermore, the Group's notes payable and non-current borrowings bearing variable interest rate cause cash flow risks. Based on simulations performed, an increase (decrease) of 1% interest rates during 2015 in respect of the abovementioned financial instruments would have resulted in an annual increase (decrease) in interest expenses of NIS 7 million. The Group does not enter into interest rate hedging transactions.

Foreign exchange risk
The Group's operating income and cash flows are exposed to currency risk, mainly due trade receivables and trade payables denominated in foreign currencies. During 2013 the Group closed its free standing forward contracts positions. The Group did not enter into free standing forward transactions in 2014 and 2015.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Data regarding the US Dollar and Euro exchange rate and the Israeli CPI:

	Exchange rate of one Dollar	Exchange rate of one Euro	Israeli CPI*
At December 31:			
2015	NIS 3.902	NIS 4.247	221.13 points
2014	NIS 3.889	NIS 4.725	223.36 points
2013	NIS 3.471	NIS 4.782	223.80 points
Increase (decrease) during the year:			
2015	0.3 %	(10.1)%	(1.0)%
2014	12.0 %	(1.2)%	(0.2)%
2013	(7.0)%	(2.8)%	1.8 %

* Index for each reporting period's last month, on the basis of 1993 average = 100 points.

Sensitivity analysis:

An increase (decrease) of 2% in the CPI as at December 31, 2013, 2014 and 2015 would have decreased (increased) equity and profit by NIS 36 million, NIS 34 million, and 20 million, for the years ended December 31, 2013, 2014, 2015 respectively, assuming all other variables remain constant.

An increase (decrease) of 5% in the USD exchange rate as at December 31, 2013, 2014 and 2015 would have decreased (increased) equity and profit by NIS 3 million, NIS 8 million, and NIS 5 million, for the years ended December 31, 2013, 2014, 2015 respectively, assuming that all other variables remain constant.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

a. Financial risk factors (continued)

2. Market risks (continued)

(b) Analysis of linkage terms of financial instruments balances

	December 31, 2015				
	In or linked to USD	In or linked to other foreign currencies (mainly EURO)	NIS linked to CPI	NIS unlinked	Total
	New Israeli Shekels In millions				
Current assets					
Cash and cash equivalents		1		925	926
Trade receivables*	50	50		957	1,057
Other receivables				31	31
Non- current assets					
Trade receivables				492	492
Total assets	50	51		2,405	2,506
Current liabilities					
Current maturities of notes payable and borrowings			353	201	554
Trade payables*	117	46		552	715
Payables in respect of employees				68	68
Other payables				10	10
Non- current liabilities					
Notes payable			463	727	1,190
Borrowings from banks and others			198	1,159	1,357
Total liabilities	117	46	1,014	2,717	3,894

In or linked to foreign currencies New Israeli Shekels in millions

* Accounts that were set-off under enforceable netting arrangements	
Trade receivables gross amounts	248
Set-off	(148)
Trade receivables, net	100
Trade payables gross amounts	311
Set-off	(148)
Trade payables, net	163

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NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

a. Financial risk factors (continued)

2. Market risks (continued)

(b) Analysis of linkage terms of financial instruments balances (continued)

	December 31, 2014				
	In or linked to USD	In or linked to other foreign currencies (mainly EURO)	NIS linked to CPI	NIS unlinked	Total
	New Israeli Shekels In millions				
Current assets					
Cash and cash equivalents	28	1		634	663
Trade receivables*	48	64		836	948
Other receivables				12	12
Non- current assets					
Trade receivables				418	418
Total assets	76	65		1,900	2,041
Current liabilities					
Current maturities of notes payable			122	187	309
Trade payables*	187	46		571	804
Payables in respect of employees				85	85
Other payables			1	6	7
Derivative financial instruments	3				3
Non- current liabilities					
Notes payable			822	911	1,733
Borrowings from banks and institutions			731	502	1,233
Total liabilities	190	46	1,676	2,262	4,174

In or linked to foreign currencies New Israeli

	Shekels in millions
* Accounts that were set-off under enforceable netting arrangements	
Trade receivables gross amounts	302
Set-off	(190)
Trade receivables, net	112
Trade payables gross amounts	423
Set-off	(190)
Trade payables, net	233

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

a. Financial risk factors (continued)

2. Market risks (continued)

(c) Details regarding the derivative financial instruments

The notional amounts of derivatives as of December 31, 2014 and 2015 are as follows, based on the amounts of currencies to be received, translated into NIS at the exchange rates prevailing at each of the reporting dates, respectively:

	New Israeli Shekels	
	December 31	
	2014	2015
	In millions	
Embedded derivatives pay USD, receive NIS	44	35

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

a. Financial risk factors (continued)

3. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables, and also from cash and cash equivalents and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group conducts credit evaluations on receivables of certain types over a certain amount, and requires collaterals against them. Accordingly, the financial statements include appropriate allowances for estimated irrecoverable amounts. See also note 2(j)(2).

The face amount of financial assets represents the maximum credit exposure, see note 6(c).

The cash and cash equivalents are held in leading Israeli commercial banks, rated by Standard & Poor's Maalot at between ilAA/Stable to ilAAA/stable.

The trade receivables are significantly widespread, and include individuals and businesses, and therefore have no representing credit rating.

See also note 7 as to the assessment by aging of the trade receivables and related allowance for doubtful accounts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

a. Financial risk factors (continued)

4. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's policy is to ensure that it has sufficient cash and cash equivalents to meet expected operational expenses, dividends and financial obligations.

Maturities of financial liabilities as of December 31, 2015:

	2016	2017	2018	2019 to 2020	2021 to 2022	2023	Total undisco-unted	Less offering expenses and discounts	Total discounted
	New Israeli Shekels in millions								
Principal payments of long term indebtedness:									
Notes payable series B (*)	121						121	**	121
Notes payable series C (*)	232	232	232				696	(1)	695
Notes payable series D		109	109	218	110		546	(3)	543
Notes payable series E	187	187					374	(3)	371
Borrowing C			25	50			75		75
Borrowing D			25	50			75		75
Borrowing E				152			152		152
Borrowing F (*)				198			198		198
Borrowing G			20	40	40		100		100
Borrowing H			20	40	40		100		100
Borrowing I			30	80	10		120		120
Borrowing J	15	14	14	29	4		76		76
Borrowing K			22	53			75		75
Borrowing L			33	67	67	33	200		200
Borrowing M		17	33	67	67	16	200		200
Expected interest payments of long term borrowings and notes payables (*)	104	81	58	59	15	1	318		318
Trade and other payables	715						715		715
	1,374	640	621	1,103	353	50	4,141	(7)	4,134

(*) Linked to the CPI as of December 31, 2015
(**) Representing an amount of less than NIS 1 million

See note 15 in respect of borrowings and notes payable.

b. Capital risk management

Credit rating: On July 29, 2015, Standard & Poor's Maalot ("S&P Maalot") has revised the Company's ilAA-/Stable credit rating to ilA+/Stable on a local scale.

See note 15 (5) regarding covenants.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

c. Fair values of financial instruments

As detailed in note 2(j) the financial instruments are categorized as following:

Fair Value Through Profit or Loss (FVTPL); Loans and Receivables (L&R); Amortized Cost (AC). The financial instruments that are categorized FVTPL are derivative financial instruments. Their fair values are calculated by discounting estimated future cash flows based on the terms and maturity of each contract and using forward rates for a similar instrument at the measurement date. All significant inputs in this technique are observable market data and rely as little as possible on entity specific estimates – this method matches the "Level 2" fair value measurement level hierarchy. There were no transfers between fair value levels during the year. Carrying amounts and fair values of financial assets and liabilities, and their categories:

		December 31, 2014			December 31, 2015		
	Category	Carrying amount	Fair value	Interest rate used (**)	Carrying amount	Fair value	Interest rate used (**)
		New Israeli Shekels in millions					
Assets							
Cash and cash equivalents	L&R	663	663		926	926	
Trade receivables	L&R	1,366	1,372	4.21 %	1,549	1,552	3.73 %
Other receivables (*)	L&R	12	12		6	6	
Liabilities							
Notes payable series B	AC	243	254	Market quote	121	123	Market quote
Notes payable series C	AC	701	750	Market quote	695	724	Market quote
Notes payable series D	AC	542	538	Market quote	543	548	Market quote
Notes payable series E	AC	556	607	Market quote	371	399	Market quote
Trade and other payables (*)	AC	896	896		793	793	
Borrowing A	AC	532	557	1.10 %			
Borrowing C	AC	75	88	2.38 %	75	85	2.66 %
Borrowing D	AC	75	88	2.38 %	75	85	2.66 %
Borrowing E (*)	AC	152	152		152	152	
Borrowing F	AC	199	216	1.70 %	198	210	1.79 %
Borrowing G	AC	100	100	3.08 %	100	100	3.08 %
Borrowing H	AC	100	100	2.93 %	100	100	2.93 %
Borrowing I	AC				120	121	3.17 %
Borrowing J	AC				76	77	2.75 %
Borrowing K	AC				75	75	3.71 %
Borrowing L	AC				200	203	4.25 %

Borrowing M	AC			200	200	3.884 %
Derivative financial instruments	FVTPL					
	Level 2	3	3	*	*	

(*) The fair value of these financial instruments equals their carrying amounts, as the impact of discounting is not significant.

(**) The fair values of the notes payable quoted market prices at the end of the reporting period are within level 1 of the fair value hierarchy. The fair values of other instruments under AC categories were calculated based on observable weighted average of interest rates derived from quoted market prices of the Group's notes payable of similar terms and nature, are within level 2 of the fair value hierarchy.

See also note 15 in respect of borrowings and notes payable.

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NOTE 7 – TRADE RECEIVABLES

(a) Composition:

	New Israeli Shekels	
	December 31	
	2014	2015
	In millions	
Trade (current and non-current)	1,577	1,763
Deferred interest income (note 2(n)(3))	(45)	(45)
Allowance for doubtful accounts	(166)	(169)
	1,366	1,549
Current	948	1,057
Non – current	418	492

Non-current trade receivables bear no interest. These balances are in respect of equipment sold in installments (18-36 monthly payments (mainly 36)). The current amount is computed on the basis of the interest rate relevant at the date of the transaction (2014 – 4.21% - 5.62%) (2015 – 3.73% - 4.21%).

During 2014 and 2015 the Company factored non-current trade receivables resulting from sales of equipment through credit cards in an amount of NIS 201 million and NIS 165 million, respectively. The factoring was executed through a clearing company, on a non-recourse basis. The factoring of accounts receivable was recorded by the Company as a sale transaction under the provisions of IAS 39. The resulting costs were charged to "finance expenses" in the statement of income, as incurred. The Group does not have continuing involvement in the factored trade receivables.

(b) Allowance for doubtful accounts:

The changes in the allowance for the years ended December 31, 2013, 2014 and 2015 are as follows:

	New Israeli Shekels		
	Year ended		
	2013	2014	2015
	In millions		
Balance at beginning of year	222	202	166
Receivables written-off during the year as uncollectible	(70)	(74)	(61)
Charge or expense during the year	50	38	64
Balance at end of year	202	166	169

Doubtful accounts expenses are recorded in the statement of income under General and administrative expenses. See note 6(a)(3) regarding trade receivables credit risk.

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NOTE 7 – TRADE RECEIVABLES (continued)

(b) Allowance for doubtful accounts (continued)

The aging of gross trade receivables and their respective allowance for doubtful accounts as of December 31, 2014 and 2015 is as follows:

	New Israeli Shekels			
	December 31			
	2014		2015	
	In millions			
	Gross	Allowance	Gross	Allowance
Less than one year	1,387	70	1,679	108
More than one year	116	96	84	61
	1,503	166	1,763	169

NOTE 8 – INVENTORY

	New Israeli Shekels	
	December 31	
	2014	2015
	In millions	
Handsets and devices	98	82
Accessories and other	18	16
Spare parts	18	20
ISP modems, routers, servers and related equipment	4	2
	138	120
Write-offs recorded	3	5
Cost of inventory recognized as expenses and included in cost of revenues for the year ended	780	898

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 – INVESTMENT IN PHI

Network sharing agreement and right of use

On November 8, 2013 the Company and Hot Mobile Ltd ("Hot Mobile") have entered into a 15-year network sharing agreement (“NSA”), which was approved by the Antitrust Commissioner as described below, and by the Ministry of Communications. Pursuant to the NSA, the parties created a 50-50 limited partnership - P.H.I. Networks (2015) Limited Partnership (hereinafter "PHI"), which will operate and develop a radio access network to be shared by both parties, starting with a pooling of both parties' radio access network infrastructures to create a single shared pooled radio access network (the "Shared Network"). The parties have also established a 50-50 company limited by shares under the name Net 4 P.H.I Ltd., to be the general partner of the limited partnership.

According to the NSA, Hot Mobile will pay the Company a onetime amount of NIS 250 million ("Lump Sum"), by the beginning of year 2017 unless one of the parties exercises an option granted to it under the NSA, pursuant to which a portion of the Lump Sum will be paid earlier) (the "Option"). Beginning on the earlier of January 1, 2017 or the date of payment of the said portion of the Lump Sum (payable upon exercise of the Option) ,(i) each party will bear half of the capital expenditures relating to the Shared Network, and (ii) the bearing of the operating costs of the Shared Network will be according to a pre-determined mechanism, according to which one half of the operating costs will be shared equally by the parties, and one half will be divided between the parties according to the relative volume of traffic consumption of each party in the Shared Network ("Capex-Opex Mechanism").

In May 2014, the Antitrust Commissioner (the "Commissioner") resolved to approved the NSA, subject to conditions that include: (a) Prohibition on exchange of information that is not required for the activities of PHI; (b) Limitations with respect to the serving as an officer or employee in either of the companies concurrent with serving as an officer or employee in PHI and certain cooling off periods were set in case of transition of officers and employees from PHI to the companies. However, this should not prevent PHI from employing employees or officers, that are currently serving as employees or officers in the companies (which employees will move to PHI and work for PHI only); (c) After a period of seven years from the date of the Commissioner's approval or after a period of six years from the issue date of all of the approvals of the Ministry of Communications, whichever is earlier, the Commissioner shall be allowed to notify the companies of the cancellation of his resolution, if he has concluded that the establishment of PHI, its existence or operations are liable to be substantively detrimental to the competition.

On November 8, 2013, the Company and Hot Mobile entered into a separate Right of Use agreement which is valid until January 4, 2017 ("ROU"), under which the Company provides services to Hot Mobile, in the form of access to use to its cellular network. According to the ROU, Hot Mobile will pay the Company fixed base payments with additional variable payments based, among other things, on traffic consumption exceeding a defined threshold.

In the event that any of the parties exercises the Option referred to in the NSA, and Hot Mobile pays the relevant portion of the Lump Sum earlier than January 1, 2017, the Capex-Opex Mechanism will become effective and Hot Mobile shall cease paying the payments payable under the ROU with respect to the period that follows the occurrence of the foregoing.

See note 26 with respect to transactions and balances with PHI.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 9 – INVESTMENT IN PHI (continued)

Set out below are the associates (see also note 2(c)(2) and note 4(b)(3)) of the Group as at December 31, 2015 held by the Group 50% of ownership interests: P.H.I. Networks (2015) Limited Partnership ("PHI"), and Net 4 P.H.I Ltd. Both are incorporated and operate in Israel. The board of directors of Net 4 P.H.I Ltd. consists of 3 directors nominated by the Company,3 directors nominated by Hot Mobile and one independent director who will act as a chairman. Net 4 P.H.I Ltd. controls PHI. This governance provides that the Company does not control PHI nor does it have joint control over it and the Company accounts for its investment in PHI according to the equity method. Set out below is a summarized financial information for the associates which are accounted for using the equity method.

	As at December 31 2015 NIS in millions
Current assets	26
Non-current assets	8
Current liabilities	24
Non-current liabilities	8
Supplemental information relating to associates:	
Commitments for operating leases	7
Commitments to purchase property and equipment	4

	Year ended December 31 2015 NIS in millions
Summarized statement of income	
Revenue	94
Pre-tax Profit	*
After-tax profit	*
Total comprehensive income	*
Reconciliation to carrying amount:	
Opening net assets January 1, 2015	-
Profit for the period	*
Partners contributions	2
Closing net assets	2
Carrying amount: Group's share (50%)	1

* Representing an amount of less than NIS 1 million.

In February 2016, HOT Mobile exercised its option under the Network Sharing Agreement to advance the payment date of the Lump Sum, in the amount of NIS 250 million, is expected to be received during 2016, with the following payments schedule; NIS 35 million during each of the second and third quarter, and NIS 180 million no later than December 15, 2016. The Lump Sum will be recognized as deferred revenue which is to be amortized to the income statement over a period of eight years, which is determined to be the shorter of the expected period of the arrangement or the expected life of the related assets. In view of the exercise of the option, capital expenditures and operating costs shall be shared according to the mechanisms described above, from April 2016.

Hot Mobile shall cease paying the payments payable under the right of use agreement from April 2016. In 2015, recorded revenues relating to the right of use agreement totaled approximately NIS 120 million.

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NOTE 10 – PROPERTY AND EQUIPMENT

	Communication network	Computers and information systems	Optic fibers and related assets	Office furniture and equipment	Property and leasehold improvements	Total
	New Israeli Shekels In millions					
Cost						
Balance at January 1, 2013	2,501	401	412	31	278	3,623
Additions in 2013	208	2	38	*	10	258
Disposals in 2013	205	71		1	74	351
Balance at December 31, 2013	2,504	332	450	30	214	3,530
Additions in 2014	237	23	19	3	12	294
Disposals in 2014	237	52		8	22	319
Balance at December 31, 2014	2,504	303	469	25	204	3,505
Additions in 2015	118	*	19	*	4	141
Disposals in 2015	423	39	2		30	494
Balance at December 31, 2015	2,199	264	486	25	178	3,152
Accumulated depreciation						
Balance at January 1, 2013	1,197	189	93	20	134	1,633
Depreciation in 2013	318	61	27	3	48	457
Disposals in 2013	205	71		1	74	351
Balance at December 31, 2013	1,310	179	120	22	108	1,739
Depreciation in 2014	305	51	31	4	33	424
Disposals in 2014	236	52		8	23	319
Balance at December 31, 2014	1,379	178	151	18	118	1,844
Depreciation in 2015	271	45	34	2	24	376
Impairment charges (**)	5	7				12
Disposals in 2015	423	39	2		30	494
Balance at December 31, 2015	1,232	191	183	20	112	1,738
Carrying amounts, net						
At December 31, 2013	1,194	153	330	8	106	1,791
At December 31, 2014	1,125	125	318	7	86	1,661
At December 31, 2015	967	73	303	5	66	1,414

(*) Representing an amount of less than 1 million.

New Israeli Shekels

	Year ended December 31		
	2013	2014	2015
	In millions		
Depreciation expenses and impairment charged to the income statement:			
Cost of revenues	427	396	363
Selling and marketing expenses	13	17	16
General and administrative expenses	17	11	9
	457	424	388
Cost additions include capitalization of salary and employee related expenses	42	41	30

(**) See note 13(2)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
NOTE 11 –INTANGIBLE ASSETS

Intangible assets with finite economic useful lives:

	Licenses	Trade name	Customer relationships	Subscriber acquisition and retention costs	Computer software(*)	Total
	New Israeli Shekels In millions					
Cost						
Balance at January 1, 2013	2,088	73	276	72	463	2,972
Additions in 2013				7	155	162
Disposals in 2013				67	45	112
Balance at December 31, 2013	2,088	73	276	12	573	3,022
Additions in 2014				5	135	140
Disposals in 2014				4	62	66
Balance at December 31, 2014	2,088	73	276	13	646	3,096
Additions in 2015	35			6	89	130
Disposals in 2015				6	73	79
Balance at December 31, 2015	2,123	73	276	13	662	3,147
Accumulated amortization						
Balance at January 1, 2013	1,336	23	140	67	189	1,755
Amortization in 2013	82	5	24	9	92	212
Disposals in 2013				67	45	112
Balance at December 31, 2013	1,418	28	164	9	236	1,855
Amortization in 2014	84	5	24	4	111	228
Disposals in 2014				4	62	66
Balance at December 31, 2014	1,502	33	188	9	285	2,017
Amortization in 2015(**)	86	6	23	7	121	243
Impairment charges (***)		2	8			10
Disposals in 2015				6	73	79
Balance at December 31, 2015	1,588	41	219	10	333	2,191
Carrying amounts, net						
At December 31, 2013	670	45	112	3	337	1,167
At December 31, 2014	586	40	88	4	361	1,079
At December 31, 2015	535	32	57	3	329	956

	New Israeli Shekels Year ended December 31		
	2013	2014	2015
	In millions		
Amortization expenses and impairments charged to the income statement:			

Cost of revenues	183	200	214
Selling and marketing expenses	29	28	39
	212	228	253
(*) Cost additions include capitalization of salary and employee related expenses	45	44	35

(**) See information with respect to change in estimate of economic life of the trade name in 2015 in note 2(f)(4)
(***) See note 13(2).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12 – DEFERRED EXPENSES – RIGHT OF USE

	New Israeli Shekels in millions
Cost	
Balance at January 1, 2013	363
Additional payments in 2013	17
Balance at December 31, 2013	380
Additional payments in 2014	22
Balance at December 31, 2014	402
Additional payments in 2015	34
Balance at December 31, 2015	436
Accumulated amortization and impairment	
Balance at January 1, 2013	203
Amortization in 2013	31
Balance at December 31, 2013	234
Amortization in 2014	37
Balance at December 31, 2014	271
Amortization in 2015	36
Impairment recorded	76
Balance at December 31, 2015	383
Carrying amount, net	
At December 31, 2013	146
Current	28
Non-current	118
Carrying amount, net	
At December 31, 2014	131
Current	34
Non-current	97
Carrying amount, net	
At December 31, 2015	53
Current	33
Non-current	20

See also notes 17(4) and note 2(g).

The amortization and impairment charges are charged to cost of revenues in the statement of income. See also note 13(2) with respect of impairment charges in 2015.

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NOTE 13 – IMPAIRMENT TESTS

(1) Goodwill impairment tests

Goodwill is allocated to a single group of CGUs which constitute all the operations of the fixed-line segment, in an amount of NIS 407 million.

For the purpose of the goodwill impairment tests as of December 31, 2013, 2014 and 2015 the recoverable amount was assessed by management with the assistance of an external independent expert ("Giza Singer Even. Ltd") based on value-in-use calculations. The value-in-use calculations use pre-tax cash flow projections covering a five-year period. Cash flows beyond the five-year period to be generated from continuing use are extrapolated using estimated growth rates. The growth rates do not exceed the long-term average growth rate of the fixed-line communications services business. The key assumptions used are as follows:

	As of December 31,		
	2013	2014	2015
Terminal growth rate	(negative 0.3%)	(negative 0.2%)	(negative 0.09%)
After-tax discount rate	11.7%	10.5%	10.3%
Pre-tax discount rate	15.8%	14.3%	13.4%

The impairment tests as of December 31, 2013, 2014 and 2015 were based on assessments of financial performance and future strategies in light of current and expected market and economic conditions. Trends in the economic and financial environment, competition and regulatory authorities' decisions, or changes in competitors' behavior in response to the economic environment may affect the estimate of recoverable amounts. As a result of the impairment tests, the Group determined that no goodwill impairment existed as of December 31, 2013, 2014 and 2015. See also note 4(a)(4) and note 2(h).

(2) Impairment tests of assets with finite useful lives

In 2015, the Group decided to cease the usage of the "012 Smile" trade name in 2017, this change in business induced the Group to determine that an indicator of impairment exist for the fixed-line segment. See also information with respect to change in estimate of useful life of the intangible asset trade name in note 4(a)(3) and 4(a)(2).

For the purpose of the impairment test, the assets were grouped to the lowest level for which there are separately identifiable cash flows (CGU).

(i) The Group reviewed the recoverability of the VOB/ISP CGU assets. As a result, an impairment charge in a total amount of NIS 98 million was recognized. The impairment charge was allocated to the assets of the CGU pro rata, on the basis of the carrying amount of each asset, provided that the impairment did not reduce the carrying amount of an asset below the highest of its fair value less costs to sell and its value-in-use, and zero. Accordingly, the following impairment charges were recorded in the assets of the above CGU:

(a) Right of use by NIS 76 million, recorded in cost of revenues (see note 12).
(b) Customer relationships by NIS 8 million, recorded in selling and marketing expenses.
(c) Computers and information systems by NIS 7 million, recorded in cost of revenues.
(d) Communication network by NIS 5 million, recorded in cost of revenues.

(e) Trade name by NIS 2 million, recorded in selling and marketing expenses.

NOTE 13 – IMPAIRMENT TESTS (continued)

The recoverable amount of the VOB/ISP CGU assets as of December 31, 2015 was assessed by management with the assistance of an external independent expert ("Giza Singer Even. Ltd") based on value-in-use calculations, which was NIS 250 million. The value in use calculations use pre-tax cash flow projections covering a five-year period and using extrapolation with specific adjustments expected until 2027,which is the economic life of the main asset of the CGU: the deferred expenses – Right of Use, and a pre-tax discount rate of 12.9%. The value-in-use calculations included all factors in real terms.

The impairment test was based on assessments of financial performance and future strategies in light of current and expected market and economic conditions. Trends in the economic and financial environment, competition and regulatory authorities' decisions, or changes in competitors' behavior in response to the economic environment may affect the estimate of recoverable amounts in future periods. See also note 2(i) and note 4(a)(3).

(ii) The Group reviewed the recoverability of the ILD CGU of the fixed line segment and determined that no impairment exists as of December 31, 2015.

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NOTE 14 – PROVISIONS

	Dismantling and restoring sites obligation	Legal claims**	Equipment warranty
	New Israeli Shekels In millions		
Balance as at January 1, 2015	35	55	3
Additions during the year	*	30	8
Reductions during the year	*	(10)	(9)
Unwind of discount	1		
Balance as at December 31, 2015	36	75	2
Non-current	36	-	-
Current	-	75	2
Balance as at December 31, 2014	35	55	3
Non-current	35	-	-
Current	-	55	3

* Representing an amount of less than 1 million.
** See also note 20.

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NOTE 15 –BORROWINGS AND NOTES PAYABLE

(1) Borrowings and Notes Payable

The Group has received loans from leading Israeli commercial banks and institutions. The Group may, at its discretion prepay the loans, subject to certain conditions, including that the Group shall reimburse the lender for losses sustained by it as a result of the prepayment. The reimbursement is mainly based on the difference between the interest rate that the Group would otherwise pay and the current market interest rate on the prepayment date.

The notes payable are unsecured non-convertible and listed for trade on the TASE.

The notes payable have been rated ilA+, on a local scale, by Standard & Poor's Maalot.

Composition as of December 31, 2015:

	Linkage terms (principal and interest)	Annual interest rate
Notes payable series B	CPI	3.4% CPI adj.
Notes payable series C	CPI	3.35% CPI adj.
Notes payable series D		'Makam'(*)plus 1.2%
Notes payable series E		5.5% fixed
Borrowing C		5.7% fixed
Borrowing D		5.7% fixed
Borrowing E		Prime(**)minus 0.025%
Borrowing F	CPI	3.42% CPI adj.
Borrowing G		3.08% fixed
Borrowing H		2.93% fixed
Borrowing I (see also note 15 (3))		3.17% fixed
Borrowing J (see also note 15 (3))		2.75% fixed
Borrowing K (see also note 15 (3))		3.71% fixed
Borrowing L (see also note 15 (3))		4.25% fixed
Borrowing M (see also note 15 (3))		3.884% fixed

(*) 'Makam' is a variable interest that is based on the yield of 12 month government bonds issued by the government of Israel. The interest is updated on a quarterly basis.

The interest rates paid (in annual terms, and including the additional interest of 1.2%) for the period from October 1, 2015 to December 30, 2015 was 1.27%

(**) The Israeli Prime interest rate is determined by the Bank of Israel and updated on a monthly basis. The Israeli Prime interest rate as of December 31, 2014 and 2015 was 1.75% and 1.60% per year, respectively

See note 6 (a) (4) as to the balances and maturities of the borrowings and the notes payable.

See note 6 (c) as to the fair value of the borrowings and the notes payable.

Principal prepayments made

(2) Borrowing A: In January, November and December 2015, the Company prepaid portions of linked principal outstanding of the loan in the amounts of NIS 177 million, NIS 176 million and NIS 176 million, which were due originally in December 2016, December 2017 and December 2018, respectively, thus completing full and final repayment of Borrowing A.

The Company paid prepayment fees in 2014 and 2015 in a total amount of NIS 6 million and NIS 19 million, respectively. The fees were recorded in interest costs.

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NOTE 15 –BORROWINGS AND NOTES PAYABLE (continued)

(3) New borrowings received

Borrowing I: On January 14, 2015, the Company received a long-term loan from a leading Israeli commercial bank in the principal amount of NIS 120 million for a period of 6 years, bearing an annual fixed interest at the rate of 3.17%. The principal is payable in 12 equal instalments, commencing in April 2018. The interest is payable on a quarterly basis.

Borrowing J: On January 14, 2015, the Company received a long-term loan from a leading Israeli commercial bank in the principal amount of NIS 80 million for a period of 6 years, bearing an annual fixed interest at the rate of 2.75%. The principal is payable in 22 equal instalments, commencing in October 2015. The interest is payable on a quarterly basis.

Borrowing K: On March 15, 2015, the Company received a long-term loan from a group of institutional corporations, in the principal amount of NIS 75 million for a period of 5 years, bearing an annual fixed interest at the rate of 3.71%. The principal is payable in 10 equal instalments, commencing in June 2018. The interest is payable on a quarterly basis.

Borrowing L: On March 31, 2015, the Company received a long-term loan from a group of institutional corporations, in the principal amount of NIS 200 million for a period of 8 years, bearing an annual fixed interest at the rate of 4.25%. The principal is payable in 12 equal instalments, commencing in March 2018. The interest is payable on a semi-annual basis.

Borrowing M: On July 1, 2015, the Company received a long-term loan from a group of institutional corporations, in the principal amount of NIS 200 million, bearing an annual fixed interest at the rate of 3.884%. The principal is payable in 24 equal quarterly payments, commencing in September 2017. The interest is payable on a quarterly basis.

(4) Loan Commitments

On May 26, 2014, the Company engaged in a loan agreement with a group of institutional corporations ("Lenders"), according to which on December 28, 2016 the Lenders will provide the Company a loan in the principal amount of NIS 250 million. The Loan will bear unlinked interest at the rate of 4.95% per annum and will be paid (principal and interest) in variable quarterly payments over five years, commencing in March 2017.

On November 27, 2014, the Company engaged in a loan agreement with a group of institutional corporations ("Lenders"), according to which on December 26, 2017 the Lenders will provide the Company a loan in the principal amount of NIS 100 million. The Loan will bear unlinked interest at the rate of 4.44% per annum and will be paid (principal and interest) in variable quarterly payments over five years, commencing in March 2018.

On November 30, 2014, the Company engaged in a loan agreement with a group of institutional corporations ("Lenders"), according to which on December 26, 2017 the Lenders will provide the Company a loan in the principal amount of NIS 100 million. The Loan will bear unlinked interest at the rate of 4.34% per annum and will be paid (principal and interest) in variable quarterly payments over five years, commencing in March 2018.

All the loan commitments include provisions which allow the lenders to not provide the loans should any of the events of default defined for our existing loans occur prior to the date for providing the deferred loans. These events of default include non-compliance with the financial covenants set forth below, as well as other customary terms.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 –BORROWINGS AND NOTES PAYABLE (continued)

(5) Financial covenants

The terms of loans require the Group to comply with financial covenants on a consolidated basis. Their main provisions are two ratios:

(1) The ratio of (a) the amount of all financial obligations of the Company including bank guarantees that the Company has undertaken ("Total Debt") to (b) EBITDA less Capital Expenditures shall not exceed 6.5 (the ratio as of December 31, 2014 and 2015 was 5.1 and 5.5, respectively); and

(2) The ratio of (a) Total Debt to (b) the EBITDA of the Company shall not exceed 4 (the ratio as of December 31, 2014 and 2015 was 3.1 and 3.8, respectively).

EBITDA is defined as the sum of (a) the net income before extraordinary items, (b) the amount of tax expenses set against the net profits including, without double counting, any provisions for tax expenses, (c) and depreciation and amortization expenses, and (d) any finance costs, net.

Capital Expenditures are defined as any expenditure classified as fixed and intangible asset in the financial statements.

The Group was in compliance with all covenants stipulated for the years 2014 and 2015. The covenants are measured every six months (on June 30, and December 31) on an annualized basis of twelve months and are based on the financial results for the preceding period of twelve months.

The existing loans agreements allow the lenders to demand an immediate repayment of the loans in certain events (events of default), including, among others, a material adverse change in the Company's business and non-compliance with the financial covenants set in those agreements.

(6) Negative pledge

The Company provided the lenders with a negative pledge undertaking (i.e., not to pledge any of its assets to a third party), except for a number of exceptions that were agreed upon, including pledge (other than by way of floating charge) in favor of a third party over specific assets or rights of the Company, securing obligations no greater than NIS 100 million in aggregate. See note 6 regarding the Company's exposure to market risks and liquidity risk.

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NOTE 16 - LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT

Israeli labor laws and agreements require payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. See also note 2(k).

(1) Defined contribution plan:

The Group had contributed NIS 15 million, NIS 17 million, NIS 15 million for the years 2013, 2014 and 2015 respectively, in accordance with Section 14 of the Israeli Severance Pay Law. See also note 2(k)(i)(1).

(2) Defined benefit plan:

Liability for employee rights upon retirement, net is presented as non-current liability.

The amounts recognized in the statement of financial position, in respect of a defined benefit plan (see note 2(k)(i)(2)) and changes during the year in the obligation recognized for post-employment defined benefit plans were as follows:

	New Israeli Shekels in millions		
	Present value of obligation	Fair value of plan assets	Total
At January 1, 2014	190	(145)	45
Current service cost	19		19
Interest expense (income)	6	(5)	1
Employer contributions		(17)	(17)
Benefits paid	(23)	17	(6)
Remeasurements:			
Experience loss (gain)	3	(3)	*
Loss from change in demographic assumptions	7		7
Loss from change in financial assumptions (**)	2		2
Return on plan assets		*	*
At December 31, 2014	204	(153)	51
Current service cost	17		17
Interest expense (income)	4	(4)	*
Employer contributions		(15)	(15)
Benefits paid	(86)	72	(14)
Remeasurements:			
Experience loss (gain)	(4)	1	(3)
Loss (gain) from change in financial assumptions	(2)	*	(2)
Return on plan assets		*	*
At December 31, 2015	133	(99)	34

(*) Representing an amount of less than NIS 1 million

Remeasuremens are recognized in the statement of comprehensive income.

The expected contribution to the defined benefit plan during the year ended December 31, 2016 is approximately NIS 11 million.

As described in note 22(d) the Company recorded a payroll onetime expense of approximately NIS 35 in 2015. This charge is not a change in the defined benefit plan and is not past service cost.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT (continued)

The principal actuarial assumptions used were as follows:

	December 31	
	2014	2015
Interest rate weighted average	3.0 %	3.47 %
Inflation rate weighted average	1.6 %	1.20 %
Expected turnover rate	10% - 49 %	10% - 49 %
Future salary increases	1% - 26 %	1% - 26 %

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

	December 31, 2015 NIS in millions	
	Increase of 10% of the assumption	Decrease of 10% of the assumption
Interest rate	(0.7)	0.6
Expected turnover rate	0.4	(0.5)
Future salary increases	0.2	(0.2)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognized within the statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The defined benefit plan exposes the Group to a number of risks, the most significant are asset volatility, and a risk that salary increases will be higher than expected in the actuarial calculations. The assets are invested in provident funds, managed by managing companies and are subject to laws and regulations, and supervision (including investment portfolio) of the Capital Markets, Insurance and Saving Division of the Israeli Ministry of Finance.

Expected maturity analysis of undiscounted defined benefits as at December 31, 2015:

	NIS in millions
2016	45
2017	14
2018	11
2019 and 2020	16

2021 and thereafter	73
	159

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 – COMMITMENTS

(1) Under the Telegraph Regulations the Company is committed to pay an annual fixed fee for each frequency used. For the years 2013, 2014 and 2015 the Company paid a total amount of approximately NIS 60 million, NIS 60 million and NIS 65 million, respectively. Under the above Regulations should the Company choose to return a frequency, such payment is no longer due.

(2) At December 31, 2015, the Group is committed to acquire property and equipment and software elements for approximately NIS11 million.

(3) At December 31, 2015, the Group is committed to acquire inventory in an amount of approximately NIS 647 million.

(4) Right of Use (ROU)

012 Smile signed long-term agreements with service providers to receive indefeasible Rights of Use (ROU) of international capacities through submarine infrastructures (see note 12), most extendable until 2027. As of December 31, 2015, 012 Smile is committed to pay for capacities over the following years an amount of NIS 303 million (excluding maintenance fees) as follows:

	New Israeli Shekels in millions
2016	51
2017	48
2018	51
2019	51
2020 and thereafter	102
	303

In addition, under the terms of the ROU agreements, 012 Smile is committed to pay annual maintenance fees during the usage period. The total aggregated expected maintenance fee for the years 2016-2023 is approximately NIS 89 million. All payments under the ROU agreements are linked to the USD.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 – COMMITMENTS (continued)

(5) In April 2012 - the Company entered into a five-year agreement with Bezeq - The Israel Telecommunication Corp., Ltd. ("Bezeq"), effective as of January 1, 2012, for the supply of transmission services for use in Partner's mobile network ("the Bezeq Agreement"). According to the Bezeq Agreement, the minimum annual commitment is NIS 55 million for the year 2012 and will gradually increase to NIS 71 million for the year 2016 due to the increase in the scope of the capacity to be purchased in accordance with the layout agreed upon by the parties. The minimum commitment as of December 31, 2015 is NIS 71 million. Commencing April 2015, Hot Mobile undertakes its share in these expenses through PHI according to the OPEX-CAPEX mechanism, see note 9.

(6) Liens and guarantees

As of December 31, 2105, the Group has provided bank guarantees in respect of licenses (see note 1(d)) in an amount of NIS 127 million, in addition to bank guarantees in favor of other parties in an aggregate amount of approximately NIS 77 million. The total bank guarantees provided by the Group as of December 31, 2015 is NIS 204 million.

(7) Covenants and negative pledge – see note 15(5), (6).

(8) See note 15 (4) with respect of loan commitments.

(9) Operating leases – see note 19.

(10) See note 9 with respect to network sharing and right of use agreements.

NOTE 18 – DEFERRED INCOME WITH RESPECT TO SETTLEMENT AGREEMENT WITH ORANGE

In June 2015, the Company announced that it had entered into a settlement agreement with Orange Brand Services Ltd ("Orange") which created a new framework for their relationship and provided both Partner and Orange the right to terminate the brand license agreement which had been in force since 1998. In accordance with the terms of the settlement agreement, the Company received advance payments in a total of €90 million during 2015; €40 million of which was received between the signing of the agreement and the completion of a market study to assess the Company’s position within the dynamics of the Israeli telecommunications services market; and €50 million of which was received in the fourth quarter of 2015, following the Company’s notice to Orange of its decision to terminate the brand license agreement.

As set forth in the settlement agreement, the advance payments are to be recognized and reconciled evenly on a quarterly basis over a period until the second quarter of 2017, against contingent marketing, sales, customer services and other expenses to be incurred over this period. The income is to be recorded in the Company’s income statement under “Income with respect to settlement agreement with Orange". For 2015, the Company recognized income with respect to the settlement agreement in an amount of NIS 61 million (US$ 16 million). Based on a legal opinion obtained by the Company, the advance payments are considered compensation payments and are therefore not subject to VAT charges.

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NOTE 19 – OPERATING LEASES

The Group has entered into operating lease agreements as follows:

(1) The Group leases it's headquarter facilities in Rosh Ha-ayin, Israel, with a total of approximately 51,177 gross square meters (including parking lots). The lease term is until the end of 2024. The rental payments are linked to the Israeli CPI.

(2) The Group also leases five call centers in Haifa, Jerusalem, Rehovot, Rishon Lezion and Beer-Sheva and also retail stores. The leases for each site have different lengths and specific terms. Lease agreements for service centers and retail stores for a period of two to ten years. The Group has options to extend some lease contract periods for up to twenty years (including the original lease periods). Some of the rental payments are linked to the dollar or to the Israeli CPI. Some of the extension options include an increase of the lease payment in a range of 2%-10%.

(3) Lease agreements in respect of cell sites and switching stations throughout Israel are for periods of two to ten years. The Company has an option to extend some of the lease contract periods for up to ten years (including the original lease periods). Some of the rental payments fees are linked to the dollar or linked to the Israeli CPI. Some of the extension options include an increase of the lease payment in a range of 2%-10%.

(4) As of December 31, 2015 operating lease agreements in respect of vehicles are for periods of up to three years. The rental payments are linked to the Israeli CPI.

(5) Non-cancelable minimum operating lease rentals in respect of all the above leases are payable including option periods which are reasonably certain are as follows:

	New Israeli Shekels December 31, 2015 In millions
2016	223
2017	157
2018	125
2019	98
2020-2021	153
2022-2023	102
2024-2025	43
2026 and thereafter	17
	918

(6) The rental expenses for the years ended December 31, 2013, 2014 and 2015 were approximately NIS 271 million, NIS 259 million, and NIS 260 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 20 – LAWSUITS AND LITIGATIONS

A. Claims

Total provision recorded in the financial statements in respect of all lawsuits against the Group amounted to NIS 75 million at December 31, 2015. See also notes 2(m)(1) and 14.

Described below are the main litigation and claims against the Group:

1. Consumer claims

a. Alleged illegal collection of charges, claims or breach of the Consumer Protection Law and Customer agreement claims

This category includes lawsuits and motions for the recognition of these lawsuits as class actions with respect to alleged unlawful collection of charges from customers or alleged breach of the Consumer Protection Law.

Described hereunder are the outstanding consumer purported class actions with respect to lawsuits with a total claim amount of NIS 10,419 million or which have not been quantified, broken down by the amount claimed, as of the date of approval of these financial statements:

Claim amount	Number of claims	Total claims amount (NIS million)
Up to NIS 100 million	12	260
NIS 100 - 400 million	6	1,154
NIS 400 million - NIS 1 billion	1	405
Over NIS 1 billion	2	8,600
Unquantified claims	4	-
Total	25	10,419

With respect to 2 of the claims mentioned in the table above, the court approved these claims as class actions:

1. On April 13, 2011, a claim and a motion to certify the claim as a class action were filed against Partner. The claim alleges that Partner sent a message to its customers that their internet package was fully utilized before it was fully utilized. The amount claimed in the lawsuit was estimated by the plaintiffs to be approximately NIS 4.6 million. On June 26, 2013, the Court approved the motion and recognized the lawsuit as a class action. On August 19, 2013, Partner filed a request to appeal to the Supreme Court. On February 21, 2014, the Supreme Court dismissed Partner's request, and a hearing has been set. On January 6, 2015, the parties filed a request to approve a settlement agreement. On July 13, 2015, the parties filed an amended request to approve the settlement agreement.

2. On May 12, 2011, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company misled certain subscribers with respect to terms and conditions of a content back up service for cellular handsets. The total amount claimed from the Company is estimated by the plaintiffs to be

approximately NIS 35 million. On August 27, 2013, the Court approved the motion and recognized the lawsuit as a class action. Partner estimates that even if the claim will be decided in favor of the relevant customers, the damages that Partner will be required to pay for, will be immaterial.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 20 – LAWSUITS AND LITIGATIONS (continued)

With respect to 3 claims mentioned in the table above, with a total amount of NIS 337 million (other than the 2 claims mentioned above), the parties filed requests to approve settlement agreements and with respect to 2 additional claims in the amount of NIS 123 million (other than the 2 claims mentioned above), the court approved a settlement agreement.

In addition to the claims mentioned in the table above, the court approved this claim as a class action and the court approved that the settlement agreement was fully executed:

During 2008, several claims and motions to certify the claims as class actions were filed against several international telephony companies including 012 Smile. The plaintiffs allege that with respect to prepaid calling card services, the defendants misled the consumers regarding certain issues, charged consumers in excess, and formed a cartel that arranged and raised the prices of calling cards. The total amount of damages claimed by the plaintiffs against 012 Smile is approximately NIS 128 million. On November 3, 2010, the court granted the plaintiffs' request and certified the lawsuit as a class action against all of the defendants. On May 10, 2012, the parties signed a settlement agreement regarding the amended request and regarding an additional lawsuit in an amount of NIS 2.7 billion, dealing with similar issues. On March 11, 2013, the parties signed a revised settlement agreement, and on May 26, 2013, the court approved the settlement agreement. The parties submitted a revised settlement agreement in December 2014 that was approved by the court in January 2015. In January 2016, the court declared that in accordance with the documents filed with the court, the execution of the settlement agreement had been completed.

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NOTE 20 – LAWSUITS AND LITIGATIONS (continued)

b. Alleged breach of license, Telecom law

This category includes lawsuits and motions for the recognition of these lawsuits as class actions with respect to alleged breaches of licenses or the Communications Law (Telecommunications and Broadcasting).

Described hereunder are the outstanding consumer purported class actions with respect to lawsuits with a total claim amount of NIS 993 million or which have not been quantified, broken down by the amount claimed, as of the date of approval of these financial statements:

Claim amount	Number of claims	Total claims amount (NIS million)
Up to NIS 100 million	17	457
NIS 100-400 million	3	536
Unquantified claims	5	-
Total	25	993

With respect to the claims in the above table, there are 3 claims that the court approved as class actions:

1. On September 26, 2011, a claim and a motion to certify the claim as a class action were filed against Partner. The claim alleges that Partner unlawfully charged payments from customers who requested to port-in their phone number from another cellular operator for services which were given to them prior to the completion of the port-in. The amount claimed in the lawsuit was estimated by the plaintiffs to be approximately NIS 25 million. On March 3, 2013, the Tel-Aviv District Court approved the motion and recognized the lawsuit as a class action. On February 18, 2016, the parties filed a request to approve the settlement agreement. Partner estimates that even if the claim will be decided in favor of the relevant customers, the damages that Partner will be required to pay for, will be immaterial.

2. On May 6, 2010, a claim and a motion to certify the claim as a class action were filed against Partner. The claim alleges that Partner unlawfully charged its customers for opening handsets that were locked for use on other cellular networks (sim lock). The amount claimed in the lawsuit was estimated by the plaintiffs to be approximately NIS 20 million. On August 25, 2013, the Court approved the motion and recognized the lawsuit as a class action. On October 8, 2013, Partner filed a request to appeal to the Supreme Court. On June 27, 2014, the Supreme Court determined a credit mechanism for the relevant group of customers which the parties are implementing.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 20 – LAWSUITS AND LITIGATIONS (continued)

3. On April 3, 2012, a claim and a motion to certify the claim as a class action were filed against Partner. The claim alleges that Partner breached its license conditions in connection with benefits provided to costumers that purchased handsets from third parties. The amount claimed in the lawsuit was estimated by the plaintiffs to be approximately NIS 22 million. On September 3, 2014, the Court approved the motion and recognized the lawsuit as a class action. It should be noted that Partner estimates that even if the claim will be decided in favor of the relevant customers, the damages that Partner will be required to pay for, will be immaterial.

With respect to 3 claims mentioned in the table above, with a total amount of NIS 183 million (other than the 3 claims mentioned above), the parties filed requests to approve the settlement agreements and with respect to 1 additional claim in the amount of NIS 35 million (other than the 3 claims mentioned above), the court approved a settlement agreement.

2. Environmental claims

This category includes two lawsuits and motions for the recognition of these lawsuits as class actions with respect to environmental issues. As of the date of approval of these financial statements, the amounts claimed from this group amount to NIS 4,610 million. On November 7, 2013, the parties filed requests to approve a settlement agreement for both lawsuits. On July 28, 2014 the Court approved the settlement agreement and on October 20, 2014 the plaintiff filed an appeal with the Supreme Court.

3. Employees and suppliers claims

This category includes two lawsuits with respect to employees and suppliers issues: a lawsuit and motion for the recognition of this lawsuit as class action in the amount of NIS 100 million and a civil lawsuit in the amount of NIS 40 million.

4. Other claims

In addition to all the above mentioned claims the Group is a party to various claims arising in the ordinary course of its operations.

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NOTE 20 – LAWSUITS AND LITIGATIONS (continued)

B. Contingencies in respect of building and planning procedures

Section 197 of the Building and Planning Law states that a property owner has the right to be compensated by a local planning committee for reductions in property value as a result of a new building plan.

In January 2006, the Non-ionizing Radiation Law was published, amending the Planning and Building Law so that local Planning and Building committees must require indemnification letters against reduction in property value from the cellular operators requesting building permits.

Accordingly, on January 3, 2006, the National Council for Planning and Building published an interim decision conditioning the issuance of building permits for cell site permits by local planning and building councils upon provision of a 100% indemnification undertaking by the cellular operators. This decision shall remain in effect until it is replaced with an amendment to the National Zoning Plan 36. Between January 3, 2006 and December 31, 2015 the Company provided the local authorities with 503 indemnification letters as a pre-condition for obtaining building permits.

In case the Company shall be required to make substantial payments under the indemnity letters, it could have an adverse effect on the Company's financial results.

According to the Company’s management estimation and based on its legal counsel, a provision in the financial statement was not included.

The Company assumes that the requirement to provide indemnification letters might require it to change locations of sites to different, less suitable locations and to dismantle some of its sites. These changes in the deployment of the sites might have an adverse effect on the extent, quality and capacity of the network coverage.

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NOTE 21 – EQUITY AND SHARE BASED PAYMENTS

a. Share capital:

The Company's share capital consists of ordinary shares, which are traded on the Tel Aviv Stock Exchange Ltd. under the symbol "PTNR", and are quoted on the NASDAQ Global Select Market™, in the form of American Depositary Shares ("ADSs"), each representing one of the Company's ordinary shares, under the symbol "PTNR", according to the dual listing regulations. The ADSs are evidenced by American Depositary Receipts ("ADRs"). Since November 2011, Citibank, N.A. serves as the Company's depository for ADSs. The holders of ordinary shares are entitled vote in the general meetings of shareholders and to receive dividends as declared.

Under the provisions of the Company's licenses (note 1(e)), restrictions are placed on transfer of the Company's shares and placing liens thereon. The restrictions include the requirement of advance written consent of the Minister of Communications be received prior to transfer of 10% or more of the Company's shares to a third party. The restrictions require that the "founding shareholders or their approved substitutes", as defined in the cellular license, hold at least 26% of the means of control in the Company, including 5% which must be held by Israeli shareholders (Israeli citizens and residents), who were approved as such by the Minister of Communications.

Through December 31, 2008 the Company purchased its own 4,467,990 shares at the cost of NIS 351 million ("treasury shares"). Of which 4,461,975 remained as of December 31, 2015. In accordance with the Israeli Companies Law, the treasury shares are considered dormant shares as long as they are held by the Company, and as such they do not bear any rights (including the right to vote in general meetings of shareholders and to receive dividends) until they are transferred to a third party.

As of December 31, 2015 treasury shares in an amount of 2,911,806 were allocated to a trustee on behalf of the Company's employees under the Company's Equity Incentive Plan (see (b) below). These shares are under the control of the Company until vested under the plan and therefore are not presented in the financial statements as outstanding shares until vested (restricted shares ("RSAs")).

b. Share based compensation to employees

(1) Description of the Equity Incentive Plan

Share options and restricted shares were granted to employees in accordance with the 2004 Equity Incentive Plan (formerly known as the 2004 Share Option Plan (the "Plan")).

On June 18, 2014, the Company's Board of Directors approved certain amendments to the Company's Equity Incentive Plan (the "Plan"). The main amendments to the Plan include: (a) the extension of the Plan for an additional ten years from July 2014 until July 2024; and (b) the addition of the ability to allocate restricted shares ("RSAs") to the Company's employees and officers and necessary related amendments to the Plan (in particular, regarding the right to vote at the general meetings of shareholders and the right to receive dividends distributed with respect to the restricted shares). The committee may set performance targets as a vesting criterion (independently or in combination with other criteria). The plan was further amended in 2015 to the increase of the number of shares which may be granted under the Plan up to a total of 22,917,000 million shares. On March, 2016, the Board of Directors approved certain amendments to the Plan.

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 21 - EQUITY AND SHARE BASED PAYMENTS (continued)

b. Share based compensation to employees (continued)

The amendments to the Plan include: (a) amendment to the cashless exercise formula; (b) the ability to allocate restricted share units to the Company's employees and office holders; (c) automatic extension of the exercise period due to black-out periods; (d) adjustments to the grantee's rights under any granted securities due to the occurrence of certain events, including a rights offering; (e) a provision allowing the Company's management bodies to decide to pay a grantee the financial benefit embedded in his equity compensation in cash compensation instead of equity compensation, in certain events in which the Company is unable to issue shares resulting from exercise of options or RSUs or to release any restricted share to a grantee; (f) extension of the exercise period as a result of a change of control event; (g) a provision that allows the Company to limit a grantee from making transactions in the granted securities in connection with any underwritten public offering of the Company and (h) certain exercise restrictions in accordance with the Tel Aviv stock exchange rules. These amendments are subject to the approval of the Israeli Tax Authority and the Israeli Securities Authority. The total number of Company's shares reserved for issuance upon exercise of all options or upon the earning of the restricted shares granted under the Plan is 22,917,000, of which 1,266,211 remained ungranted as of December 31, 2015. The vesting of the options and the earning of the restricted shares are subject to vesting /restriction periods. The vesting of the options and the earning of the restricted shares granted after June 2014 are also subject to performance conditions set by the Company's organs. The Company expects that the performance conditions will be met. The Plan's principal terms of the options include:

- Exercise price adjustment:

The exercise price of options shall be reduced in the following events: (1) dividend distribution other than in the ordinary course: by the gross dividend amount so distributed per share, and (2) dividend distribution in the ordinary course: the exercise price shall be reduced by the amount of a dividend in excess of 40% of the Company's net income for the relevant period per share, or by the gross dividend amount so distributed per share ("Full Dividend Mechanism"), depending on the date of granting of the options.

- Cashless exercise: Most of the options may be exercised only through a cashless exercise procedure, while holders of other options may choose between cashless exercise and the regular option exercise procedure. In accordance with such cashless exercise, the option holder would receive from the Company, without payment of the exercise price, only the number of shares whose aggregate market value equals the economic gain which the option holder would have realized by selling all the shares purchased at their market price, net of the option exercise price.

(2) Information in respect of options and restricted shares granted under the Plan:

	Through December 31, 2015	
	Number of options	Number of RSAs
Granted	29,104,416	3,374,446
Shares issued upon exercises and vesting	(6,063,846)	(6,015)
Cancelled upon net exercises, expiration and forfeitures	(10,354,253)	(467,805)
Outstanding	12,686,317	2,900,626
Of which:		

Exercisable	4,615,076	-
Vest in 2016	2,678,117	947,599
Vest in 2017	2,673,710	966,815
Vest in 2018	2,673,682	966,792
Vest in 2019	45,732	19,420

As of December 31, 2015 the Company expects to record a total amount of compensation expenses of approximately NIS 68 million during the next four years with respect to the options. and restricted shares.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 21 - EQUITY AND SHARE BASED PAYMENTS (continued)

(3) Options status summary as of December 31, 2013, 2014 and 2015 and the changes therein during the years ended on those dates:

	Year ended December 31					
	2013		2014		2015	
	Number	Weighted average exercise price NIS	Number	Weighted average exercise price NIS	Number	Weighted average exercise price NIS
Balance outstanding at the beginning of the year	7,523,748	44.02	6,928,382	43.46	8,962,116	32.08
Changes during the year:						
Granted	292,500	25.36	3,897,270	26.25	5,519,031	17.41
Exercised	(75,640)	13.66	(828,950)	16.30	(32,880)	13.12
Forfeited	(322,009)	30.63	(334,570)	32.83	(1,459,215)	28.7
Expired	(490,217)	54.31	(700,016)	57.72	(302,735)	58.61
Balance outstanding at the end of the year	6,928,382	43.46	8,962,116	32.08	12,686,317	29.52
Balance exercisable at the end of the year	4,818,696	52.02	4,902,943	47.25	4,615,076	45.97
Shares issued	41,294		385,943		14,511	

	Options granted in 2013	Options granted in 2014	Options granted in 2015
Weighted average fair value of options granted using the Black & Scholes option-pricing model – per option (NIS)	6.74	6.92	5.37
The above fair value is estimated on the grant date based on the following weighted average assumptions:			
Expected volatility	34.43 %	31.66 %	39.28 %
Risk-free interest rate	1.78 %	1.00 %	0.54 %
Expected life (years)	3	4	3
Dividend yield	*	*	*

* Due to the Full Dividend Mechanism the expected dividend yield used in the fair value determination of such options was 0% for the purpose of using the Black & Scholes option-pricing model.

The expected volatility is based on a historical volatility, by statistical analysis of the daily share price for periods corresponding the option's expected life. The expected life is expected length of time until expected date of exercising the options, based on historical data on employees' exercise behavior and anticipated future condition.

The fair value of RSAs was evaluated based on the stock price on grant date.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 21 - EQUITY AND SHARE BASED PAYMENTS (continued)

(4) Information about outstanding options by expiry dates

Share options outstanding as of December 31, 2015 have the following expiry dates and exercise prices:

Expire in	Number of options	Weighted average exercise price in NIS
2016	339,620	35.23
2017	71,000	53.44
2019	1,241,271	51.10
2020	3,571,925	35.97
2021	6,614,181	22.51
2022	548,320	22.15
2023	150,000	23.61
2025	150,000	14.72
	12,686,317	29.52

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 22 – EXPENSES

(a) Cost of revenues

	New Israeli Shekels Year ended December 31,		
	2013	2014	2015
	In millions		
Transmission, communication and content providers	1,073	981	888
Cost of equipment and accessories	664	738	852
Wages, employee benefits expenses and car maintenance	408	366	320
Depreciation and amortization (including impairment)	610	596	577
Costs of handling, replacing or repairing equipment	104	88	88
Operating lease, rent and overhead expenses	312	332	315
Network and cable maintenance	123	120	145
Internet infrastructure and service providers	45	29	49
Carkit installation, IT support, and other operating expenses	82	86	72
Amortization of rights of use (including impairment)	31	37	112
Other	58	46	54
Total cost of revenues	3,510	3,419	3,472

(b) Selling and marketing expenses

	New Israeli Shekels Year ended December 31,		
	2013	2014	2015
	In millions		
Wages, employee benefits expenses and car maintenance	231	205	206
Advertising and marketing	55	49	30
Selling commissions, net	72	83	77
Depreciation and amortization (including impairment)	42	45	55
Operating lease, rent and overhead expenses	33	25	27
Other	29	31	22
Total selling and marketing expenses	462	438	417

(c) General and administrative expenses

	New Israeli Shekels Year ended December 31,		
	2013	2014	2015
	In millions		
Wages, employee benefits expenses and car maintenance	80	71	84
Bad debts and allowance for doubtful accounts	50	39	63
Professional fees	25	27	31
Credit card and other commissions	23	18	16
Depreciation	17	11	9
Other	22	27	20

Total general and administrative expenses	217	193	223

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 22 – EXPENSES (continued)

(d) Employee benefit expense	New Israeli Shekels Year ended December 31,		
	2013	2014	2015
	In millions		
Wages and salaries including social benefits, social security costs, pension costs and car maintenance before capitalization	763	683	622
Less: expenses capitalized (notes 10, 11)	(87)	(85)	(65)
Service costs: defined benefit plan (note 16)	23	19	21
Service costs: defined contribution plan (note 16)	15	17	15
Amortization of share based compensation (note 21(b))	5	8	17
	719	642	610

The Company, the employees' representatives and the Histadrut New General Labor Organization, have reached understandings regarding a retirement plan that includes, among others, an increased retirement payment and range of benefits. This plan is a continuation of the necessary efficiency measures that the Company has initiated over the last few years. As a result, the Company recorded a onetime expense of approximately NIS 35 million in the third quarter of 2015.

NOTE 23 – OTHER INCOME, NET

	New Israeli Shekels Year ended December 31,		
	2013	2014	2015
	In millions		
Unwinding of trade receivables	75	47	46
Other income, net	3	2	*
Capital gain from property and equipment	1	1	1
	79	50	47

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 24 – FINANCE COSTS, NET

	New Israeli Shekels Year ended December 31,		
	2013	2014	2015
	In millions		
Net foreign exchange rate gains	21		
Fair value gain from derivative financial instruments, net			2
CPI linkage income			9
Interest income from cash equivalents	7	3	1
Other	1	*	1
Finance income	29	3	13
Interest expenses	171	123	136
CPI linkage expenses	46	3	
Fair value loss from derivative financial instruments, net	12	7	
Net foreign exchange rate losses		18	9
Other finance costs	11	11	11
Finance expenses	240	162	156
	211	159	143

* Representing an amount of less than 1 million

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 25 – INCOME TAX EXPENSES

a. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985

Under this law, results for tax purposes through tax-year 2007 were measured in real terms, having regard to the changes in the Israeli CPI. Commencing the tax-year 2008 and thereafter the Company and its subsidiaries are measured for tax purposes in nominal values, except for certain transition provisions: certain losses carryforward for tax purposes, and certain tax deductible depreciation expenses are adjusted to the changes in the CPI until the end of 2007.

b. Corporate income tax rates applicable to the Group

The Group is taxed according to the regular corporate income tax in Israel.

On December 6, 2011, the "Tax Burden Distribution Law" Legislation Amendments (2011) was published. Under this law Corporate tax rate was set to of 25% as from 2012 and thereafter.

On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013-2014), 2013 was published, enacts, among other things, the raising of the corporate tax rate beginning in 2014 and thereafter to 26.5% (instead of 25%). As a result, the deferred tax asset as of December 31, 2013 has increased in the amount of approximately NIS 1 million, with corresponding decrease in deferred tax expenses in the income statement.

In January 2016 the corporate tax rate from 2016 and thereafter was reduced to 25% (instead of 26.5%) according to a law that was approved in January 2016. Had the law been approved at December 31, 2015, the deferred tax asset as of December 31, 2015 would have decreased in the amount of approximately NIS 2 million, with corresponding increase in deferred tax expenses in the income statement.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 25 - INCOME TAX EXPENSES (continued)

c. Deferred income taxes

Balances of deferred tax asset (liability) in NIS millions are attributable to the following items:

Balance of deferred tax asset (liability) in respect of	As at January 1, 2013	Charged to the income statement	Charged to other comprehensive income	Effect of change in corporate tax rate	As at December 31, 2013	Charged to the income statement	Charged to other comprehensive income	As at December 31, 2014	Charged to the income statement	Charged to other comprehensive income	As at December 31, 2015
Allowance for doubtful accounts	56	(5)		3	54	(10)		44	1		45
Provisions for employee rights	15	*	2	1	18	(1)	2	19	(4)	(1)	14
Depreciable fixed assets and software	(100)	13		(5)	(92)	22		(70)	17		(53)
Intangibles, deferred expenses and carry forward losses	47	(26)		2	23	(16)		7	15		22
Options granted to employees	*	1		*	1	*		1	2		3
Other	9	(1)		*	8	1		9	9		18
Total	27	(18)	2	1	12	(4)	2	10	40	(1)	49

* Representing an amount of less than NIS 1 million.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 25 - INCOME TAX EXPENSES (continued)

	New Israeli Shekels December 31,	
	2014	2015
	In millions	
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	82	92
Deferred tax assets to be recovered within 12 months	35	50
	117	142
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	90	85
Deferred tax liabilities to be recovered within 12 months	17	8
	107	93
Deferred tax assets, net	10	49

d. Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (see (b) above), and the actual tax expense:

	New Israeli Shekels Year ended December 31		
	2013	2014	2015
	In millions		
Profit (loss) before taxes on income, as reported in the income statements	198	241	(36)
Theoretical tax expense	50	64	(9)
Increase in tax resulting from disallowable deductions	17	15	7
Utilization of previously unrecognized tax losses and other temporary differences	(3)		
Taxes on income in respect of previous years			7
Change in corporate tax rate, see (b) above	(1)		
Other	*	*	(1)
Income tax expenses	63	79	4

* Representing an amount of less than NIS 1 million.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 25- INCOME TAX EXPENSES (continued)

e. Taxes on income included in the income statements:

	New Israeli Shekels Year ended December 31		
	2013	2014	2015
	In millions		
For the reported year:			
Current	48	72	37
Deferred, see (c) above	18	4	(40)
Effect of change in corporate tax rate on deferred taxes	(1)		
In respect of previous year:			
Current	(2)	3	7
	63	79	4

f. Tax assessments:

1) The Company has received final corporate tax assessments through the year ended December 31, 2013.

2) A subsidiary has received final corporate tax assessments through the year ended December 31, 2012.

3) As general rule, tax self-assessments filed by another two subsidiaries through the year ended December 31, 2011 are, by law, now regarded as final. However, the manager of the tax authority may direct that the abovementioned last tax self-assessment will not be regarded as final until December 31, 2015.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Transactions with Scailex group

Scailex was the Company's parent company until January 29, 2013.

On May 5, 2011, the shareholders of the Company approved and ratified an amendment to the Samsung Products Agreement according to which: (a) the total volume of the annual procurement from Scailex shall not exceed NIS 550 million (excluding VAT) and will not exceed 40% of the total cost of the products purchased by the Company in a calendar year; (b) if an auditor agreed upon by both parties should confirm that the annual gross profit margin of any group of products exceeds Scailex's average gross profit margin, from the same group of products with any entity in which Scailex is not an interested party therein, Scailex shall credit the difference to the Company; and (c) The term of the Samsung Products Agreement is for a period of two years commencing on January 1, 2011. In January 2013, the Audit Committee and Board of Directors approved an extension of the Samsung Products Agreement for an additional period of two years, commencing retroactively on January 1, 2013, under the same terms and conditions, including that the total volume of the annual procurement from Scailex shall remain unchanged. In April 2013, the resolution was approved by the general meeting of shareholders. The agreement has ended on December 31, 2014. During 2015, and until October 15, 2015, the Audit Committee and Board of Directors approved transactions with Scailex group during the ordinary course of business.

On October 15, 2015 Scailex and its affiliates' holdings of Partner's share capital decreased to less than 5%.

	New Israeli Shekels		
	Year ended December 31, 2013	Year ended December 31, 2014	Period* ended October 15, 2015
Transactions with Scailex group	In millions		
Service revenues	0.4	0.3	0.2
Acquisition of equipment	189	51	8
Selling commissions, maintenance and other income	2	0.1	0.2

* Commencing January 1, 2015

	New Israeli Shekels December 31, 2014
Statement of financial position items - Scailex group	In millions
Current liabilities: Scailex group	3

The transactions are carried out in the ordinary course of business. Management believes that such transactions were carried out under normal market conditions.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

b. Key management compensation

Key management personnel are the senior management of the Company and the members of the Company's Board of Directors.

	New Israeli Shekels Year ended December 31		
	2013	2014	2015
Key management compensation expenses comprised	In millions		
Salaries and short-term employee benefits	20	20	23
Long term employment benefits	5	3	4
Employee share-based compensation expenses	2	2	4
	27	25	31

	New Israeli Shekels December 31,	
	2014	2015
Statement of financial position items - key management	In millions	
Current liabilities:	5	7
Non-current liabilities:	13	14

c. In the ordinary course of business, key management or their relatives may have engaged with the Company with immaterial transactions that are under normal market conditions.

d. Principal shareholder: On January 29, 2013, S.B. Israel Telecom Ltd. completed the acquisition of 48,050,000 ordinary shares of the Company and became the Company's principal shareholder. See also note 1(a).

e. In order to encourage the Company’s executive officers to remain with the Company following the acquisition by S.B. Israel Telecom of 30.87% of our issued and outstanding shares, principally from Scailex, the Company’s Board of Directors, upon the recommendation and approval of its compensation committee, adopted a two-year retention plan on December 17, 2012, that became effective upon change of control on January 29, 2013. According to the terms of the plan, retention payments were made to each of the Company’s eligible executive officers at the first and second anniversaries of the closing of the change of control (January 29, 2013), provided the executive officer had not resigned for reasons other than for certain justified reasons, (as specified in the retention plan) or in case of termination by the Company. The aggregate amount of all retention payments paid was NIS 6.5 million. In addition, on May 22, 2012, the Company’s Board of Directors and audit committee, upon the recommendation and approval of its compensation committee, adopted a retention plan for the CEO according to which the CEO would receive an amount of NIS 1.8 million, provided that the CEO did not resign during the first year of the change of control or his employment was terminated by the Company under circumstances other than those that would deny

his lawful right to severance payments and advanced notice. On December 29, 2013, the CEO notified the Company that he irrevocably waived any right to the said retention bonus.

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

f. Associates – investment in PHI

Balances and transactions with associates (see note 9).

	New Israeli Shekels Year ended December 31 2015 In millions
Operating expenses, net	(7)

	New Israeli Shekels December 31 2015
Deferred expenses - Right of use	4
Current assets	25

NOTE 27 –EARNINGS (LOSS) PER SHARE

Following are data relating to the net income (loss) and the weighted average number of shares that were taken into account in computing the basic and diluted EPS:

	Year ended December 31		
	2013	2014	2015
Profit (loss) used for the computation of basic and diluted EPS (NIS in millions)	135	162	(40)
Weighted average number of shares used in computation of basic EPS (in thousands)	155,658	155,802	156,081
Add - net additional shares from assumed exercise of employee stock options and restricted shared (in thousands)	541	598	0
Weighted average number of shares used in computation of diluted EPS (in thousands)	156,199	156,400	156,081

Number of options and restricted shares not taken into account in computation of diluted earnings per share, because of their anti-dilutive effect (in thousands)	5,378	8,101	15,587

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 28 – SUBSEQUENT EVENT - COLLECTIVE EMPLOYMENT AGREEMENT

The Company signed a collective employment agreement with the employees' representatives and the Histadrut New General Labor Organization. The agreement includes an organizational chapter that is for a period of three years (2016-2018) and an economic chapter that is valid until December 31, 2016. The estimated cost of the 2016 economic chapter is approximately NIS 30 million.

Annex "B"

PARTNER COMMUNICATIONS COMPANY LTD.

REPORT OF THE BOARD OF DIRECTORS FOR THE
YEAR ENDED DECEMBER 31, 2015

The following report is a summary only, and is not intended to be a comprehensive review of the company's business and results of its operations and financial condition for the year 2015. The report is based upon and should be read in conjunction with Partner's Form 20-F for the year ended December 31, 2015, filed with the Securities and Exchange Commission (the "Form 20-F"). In particular, you should read the risk factors appearing in the Form 20-F for a discussion of a number of factors that affect and could affect Partner's financial condition and results of operations.

This report, as well as Form 20-F, 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 fo statements but are not the only way we identify these statements. All statements other than statements of historical fact included in this report regarding our future performance, revenues or margins, market share or reduction of 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 and fixed-line 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, see in Form 20-F, "Item 3D. Risk Factors", "Item 4. Information On The Company", "Item 5. Operating And Financial Review And Prospects", "Item 8A.1 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 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.

In this report, references to "$" and "US dollars" are to United States dollars and references to "NIS" are to New Israeli Shekels. This report contains translations of NIS amounts into US dollars at December 31, 2015 NIS 3.902 =US$ 1.00 as published by the Bank of Israel, solely for the convenience of the reader.

Results of Consolidated Operations for the Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

Composition of revenues and cost of revenues

	New Israeli Shekels Year ended December 31,	
	2014	2015
	In millions	
Service revenues	3,408	2,992
Equipment revenues	992	1,119
Total revenues	4,400	4,111
Cost of revenues – Services	2,655	2,592
Cost of revenues – Equipment	764	880
Total Cost of revenues	3,419	3,472
Gross profit	981	639

Total revenues. In 2015, total revenues were NIS 4,111 million (US$ 1,054 million), a decrease of 7% from NIS 4,400 million in 2014.

Revenues from services. Service revenues in 2015 totaled NIS 2,992 million (US$ 767 million), a decrease of 12% from NIS 3,408 million in 2014.

Revenues from equipment. Equipment revenues in 2015 totaled NIS 1,119 million (US$ 287 million), an increase of 13% from NIS 992 million in 2014. The increase largely reflected higher average prices per device sold due to a change in product mix. (See also the comment regarding gross profit from equipment sales below).

Gross profit from service revenues. The gross profit from service revenues in 2015 was NIS 400 million (US$ 103 million), compared with NIS 753 million in 2014, a decrease of 47%. Gross profit from service revenues was negatively affected by expenses in the amount of NIS 88 million (US$ 23 million) that were recorded following the impairment charge on the rights of use (NIS 76 million), on computers and information systems (NIS 7 million) and on the communication network (NIS 5 million). Excluding the impact of these impairment charges, gross profit from service revenues was NIS 488 million (US$ 125 million) in 2015, a decrease of 35% compared with 2014, largely reflecting the decrease in service revenues, partially offset by the decrease in the cost of service revenues. See also Note 22 to our consolidated financial statements.

Gross profit from equipment sales. Gross profit from equipment sales in 2015 was NIS 239 million (US$ 61 million), compared with NIS 228 million in 2014, an increase of 5%, mainly reflecting a change in product mix, with the Company devoting greater attention in 2015 on products with higher profit margins.

A significant majority of sales of equipment continue to be offered together with long term financing plans, whereby the customer pays for the equipment through monthly payments (generally over 12 to 36 months). However, we may, in the future, be required to restrict the use of long-term installment plans, due to their downward pressure on cash flow, which may reduce our sales and of equipment and the resulting profitability. See "Item 5B Liquidity and Capital Resources" and "Item 5D.2 Outlook".

Operating expenses. Operating expenses (selling, marketing, general and administrative expenses) totaled NIS 640 million (US$ 164 million) in 2015, an increase of 1% from 2014. Operating expenses included expenses in the amount of NIS 10 million (US$ 3 million) that were recorded following the impairment charge on customer relationships (NIS 8 million) and on the trade name (NIS 2 million). Excluding the impact of these impairment charges, selling, marketing, general and administration expenses were NIS 630 million (US$ 161 million) in 2015, no significant change compared to NIS 631 million in 2014. Within the total, increases in salaries and related workforce expenses and bad debts and allowance for doubtful accounts expenses were offset by decreases in advertising and marketing expenses, in selling commissions, net, and in other expenses. See also Note 22 to our consolidated financial statements.

Total operating expenses. Total operating expenses ("Opex", including cost of service revenues (NIS 2,592 million in 2015) and selling, marketing and administrative expenses (NIS 640 million in 2015), and excluding depreciation, amortization and impairment expenses (NIS 769 million in 2015); this measure is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies) totaled NIS 2,463 million (US$ 631 million) in 2015, a decrease of 5% or NIS 127 million from 2014, largely a result of a decrease in expenses related to payments to transmission, communication and content providers and the impact of efficiency measures, including the reduction in the Company workforce by approximately 15% on an average basis (average of workforce at beginning and end of year). This included the impact of a retirement plan during 2015, as a result of which the Company recorded onetime expenses of approximately NIS 35 million in the third quarter of 2015, which were partially offset by a resulting reduction in salaries and related expenses in 2015.

Including depreciation, amortization and impairment expenses, Opex in 2015 decreased by 2% compared with 2014. See also Note 22 to our consolidated financial statements.

Income with respect to settlement with Orange. In 2015, the Company recorded income with respect to the settlement agreement of the Orange brand agreement in an amount of NIS 61 million. See also Item 5A.1c Settlement Agreement with Orange Brand Services Ltd." above and Note 18 to our consolidated financial statements.

Other income, net. Other income, net, totaled NIS 47 million (US$ 12 million) in 2015, compared to NIS 50 million in 2014, a decrease of 6%, mainly reflecting a decrease in income from the unwinding of trade receivables. See also Note 23 to our consolidated financial statements.

Operating profit. Reported operating profit for 2015 was NIS 107 million (US$ 27 million), a decrease of 73% compared with operating profit of NIS 400 million in 2014. Operating profit for 2015 before the total impact of the impairment charges described above in the amount of NIS 98 million, was NIS 205 million (US$ 53 million), a decrease of 49% compared with operating profit of NIS 400 million in 2014.

Finance costs, net. Finance costs, net in 2015 were NIS 143 million (US$ 37 million), a decrease of 10% compared with NIS 159 million in 2014. The decrease was mainly due to lower losses from foreign exchange movements in 2015 compared with foreign exchange gains in 2014. See also “Item 5B Liquidity and Capital Resources.”

Profit (loss) before income tax. Loss before income taxes for 2015 was NIS 36 million (US$ 9 million), compared with profit before income tax of NIS 241 million in 2014. Before the total impact of the impairment charges described above in the amount of NIS 98 million, profit before income tax was NIS 62 million (US$ 16 million) in 2015, a decrease of 74% from 2014.

Income taxes on profit. Income taxes on loss for 2015 were NIS 4 million (US$ 1 million), compared to NIS 79 million in 2014.

In 2016, the Israeli corporate tax rate is expected to decrease from 26.5% in 2015 to 25%. However, the Company’s effective tax rate is expected to be slightly higher mainly due to nondeductible expenses. See also Note 25 to our consolidated financial statements.

Profit (Loss). Reported loss in 2015 was NIS 40 million (US$ 10 million), a decrease of NIS 202 million compared with profit of NIS 162 million in 2014. Profit before the impact of the impairment in the amount of NIS 72 million (after income tax), was NIS 32 million (US$ 8 million) in 2015, a decrease of 80% from NIS 162 million in 2014. Based on the weighted average number of shares outstanding during 2015, basic loss per share or ADS, was NIS 0.26 (US$ 0.06), compared to basic earnings per share of NIS 1.04 in 2014.For information regarding potential downward impacts on profits in 2016, see “Item 5D.2 Outlook.”

Adjusted EBITDA. Adjusted EBITDA in 2015 totaled NIS 876 million (US$ 225 million), a decrease of 20% from NIS 1,096 million in 2014. As a percentage of total revenues, Adjusted EBITDA in 2015 was 21%, compared with 25% in 2014.

Adjusted EBITDA as reviewed by the Chief Operating Decision Maker (“CODM”), represents earnings before interest (finance costs, net), taxes, depreciation, amortization (including amortization of intangible assets, deferred expenses-right of use, and amortization of share based compensation) and impairment charges, as a measure of operating profit. Adjusted EBITDA is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies. Adjusted EBITDA may not be indicative of the Company’s historic operating results nor is it meant to be predictive of potential future results. We use the term “Adjusted EBITDA” to highlight the fact that amortization includes amortization of deferred expenses – right of use and employee share-based compensation expenses; it is fully comparable to EBITDA information which has been previously provided for prior periods.

Results Of Operation By Segment For The Year Ended December 31, 2015 Compared To The Year Ended December 31, 2014

Cellular Services Business Segment

Total revenues. Total revenues for the cellular segment in 2015 were NIS 3,348 million (US$ 858 million), a decrease of 6% from NIS 3,556 million in 2014.

Revenues from services. Service revenues for the cellular segment in 2015 totaled NIS 2,297 million (US$ 589 million), a decrease of 12% from NIS 2,618 million in 2014. The decrease was mainly a result of the continued downward pressures on the prices of post-paid and pre-paid cellular services as a result of the unrelenting competition in the cellular market. As an illustration of the level and increase in competition in the cellular market, approximately 2.5 million cellular subscribers switched operators within the Israeli market (with number porting) in 2015, largely unchanged from the number of switchers in 2014, compared with approximately 1.8 million in 2013.

Significant price erosion continued to be caused by the amount of cellular subscribers who moved between different rateplans or airtime packages (generally with a lower monthly fee) within the Company. As in 2014, in 2015 subscribers switched rateplans or packages over one million times (including subscribers who switched more than once) within the Company, signifying a significant increase in the number of switches compared with 2013.

The decrease in service revenues from our subscribers was partially offset by an increase in revenues from wholesale services provided to other operators hosted on the Company’s network, particularly as a result of the Right of Use agreement with Hot Mobile. See "Item 5A.1e Right of Use Agreement with HOT Mobile.”

Pre-paid cellular subscribers contributed service revenues in a total amount of approximately NIS 230 million (US$ 59 million) in 2015, a decrease of 23% from approximately NIS 300 million in 2014, as a result of the price erosion in pre-paid services and the decrease in the number of pre-paid subscribers, which was largely attributed to pre-paid subscribers moving to post-paid subscriber packages as a result of the significant price erosion (and hence increasing attractiveness) in these products.

Revenues from equipment. Revenues from equipment sales for the cellular segment (including cellular handsets, WI-FI-only tablets, 3G/LTE tablets, laptops, datacards and modems, related equipment, car kits and accessories, and digital audio visual equipment) in 2015 totaled NIS 1,051 million (US$ 269 million), increasing by 12% from NIS 938 million in 2014. The increase largely reflected higher average prices per device sold due to a change in product mix (see also the comment regarding gross profit from equipment sales below). As in 2014, a significant majority of sales of equipment in 2015 were offered together with long term financing plans, whereby the customer pays for the equipment through monthly payments (generally over 12 to 36 months).

Gross profit from equipment sales. The gross profit from equipment sales for the cellular segment in 2015 was NIS 219 million (US$ 56 million), compared with NIS 211 million in 2014, an increase of 4%, mainly reflecting a change in product mix, with the Company devoting greater attention in 2015 on products with higher profit margins, as explained above. See also “Item 5D.2 Outlook”.

Cost of service revenues. The cost of service revenues for the cellular segment (excluding inter-segment costs) decreased by 5% from NIS 1,963 million in 2014 to NIS 1,856 million (US$ 476 million) in 2015. This decrease largely reflected decreases in expenses related to payments to communication and content providers and salaries and related expenses, partially offset by increases in network and cable maintenance expenses. See also Note 22 to our consolidated financial statements.

Operating expenses. Operating expenses (selling, marketing, general and administration expenses) for the cellular segment in 2015 amounted to NIS 506 million (US$ 130 million), a decrease of 1% from NIS 509 million in 2014. The decrease mainly reflected decreases in advertising and marketing expenses and in selling commissions, net, partially offset by increases in bad debts and allowance for doubtful accounts expenses and in salaries and related expenses. See also Note 22 to our consolidated financial statements.

Total operating expenses. Total operating expenses for the cellular segment (including cost of service revenues, selling, marketing and administrative expenses and excluding depreciation and amortization expenses) totaled NIS 2,024 million (US$ 519 million) in 2015, a decrease of 4% or NIS 92 million from 2014. See also Note 22 to our consolidated financial statements. Including depreciation and amortization expenses, operating expenses also decreased by 4%.

Operating profit. Overall, operating profit for the cellular segment in 2015 was NIS 72 million (US$ 18 million), decreasing by 67% compared with NIS 221 million in 2014, largely reflecting the impact of the decrease in service revenues, partially offset by the reduction of total operating expenses and the increase in gross profits from equipment sales, as described above.

Adjusted EBITDA. Adjusted EBITDA for the cellular segment was NIS 597 million (US$ 153 million) in 2015, decreasing by 22% from NIS 762 million in 2014, for the same reasons as the decrease in operating profit. As a percentage of total cellular revenues, Adjusted EBITDA for the cellular segment in 2015 was 18%, compared with 21% in 2014

Fixed Line Services Business Segment

Total revenues. Total revenues in 2015 for the fixed-line segment were NIS 974 million (US$ 250 million), a decrease of 8% compared with NIS 1,058 million in 2014.

Revenues from services. Service revenues for the fixed-line segment totaled NIS 906 million (US$ 232 million) in 2015, a decrease of 10% compared with NIS 1,004 million in 2014. The decrease mainly reflected lower revenues from international calls and from local lines and ISP services. Our market share in the ISP segment continues to be eroded as a result of the strong competition in the market from both existing and new service providers.

Revenues from equipment. Revenues from equipment sales for the fixed-line segment in 2015 totaled NIS 68 million (US$ 17 million), an increase of 26% compared with NIS 54 million in 2014. The increase mainly reflected an increase in the sale of non-core fixed line equipment, including tablets, televisions, streamers and other audio visual devices, as well as in fixed line equipment for business customers.

Gross profit from equipment sales. The gross profit from equipment sales for the fixed-line segment in 2015 was NIS 20 million (US$ 5 million), compared with NIS 17 million in 2014, an increase of 18%, reflecting the increase in sales, as described above.

Cost of service revenues. The cost of service revenues (excluding inter-segment costs) for the fixed-line segment increased by 6% from NIS 692 million in 2014, to NIS 736 million (US$ 189 million) in 2015. The cost of service revenues was negatively affected by expenses in the amount of NIS 88 million (US$ 23 million) that were recorded following the impairment charge on the rights of use (NIS 76 million), on computers and information systems (NIS 7 million) and on the communication network (NIS 5 million). Excluding the impact of these impairment charges, the cost of service revenues was NIS 648 million (US$ 166 million) in 2015, a decrease of 6% compared with 2014, largely reflecting decreases in expenses related to payments to communication providers and in salaries and related expenses, partially offset by increases in expenses related to payments to internet infrastructure and service providers. See also Note 22 to our consolidated financial statements.

Operating expenses. Operating expenses (selling, marketing, general and administration expenses) for the fixed-line segment in 2015 amounted to NIS 134 million (US$ 34 million), an increase of 10% from NIS 122 million in 2014. Operating expenses included expenses in the amount of NIS 10 million (US$ 3 million) that were recorded following the impairment charge on customer relationships (NIS 8 million) and on the trade name (NIS 2 million). Excluding the impact of these impairment charges, selling, marketing, general and administration expenses were NIS 124 million (US$ 32 million) in 2015, a slight increase of 2% from 2014. See also Note 22 to our consolidated financial statements.

Total operating expenses. Total operating expenses for the fixed-line segment (including cost of service revenues, selling, marketing and administrative expenses and excluding depreciation and amortization and impairment charges) totaled NIS 650 million (US$ 167 million) in 2015, a decrease of 6% or NIS 38 million from 2014. See also Note 22 to our consolidated financial statements. Including depreciation, amortization and impairment expenses, operating expenses increased by 6%.

Operating profit. Operating profit for the fixed-line segment was NIS 35 million (US$ 9 million) in 2015, a decrease of 80% compared to NIS 179 million in 2014. Operating profit for 2015 before the total impact of the impairment charges described above in the amount of NIS 98 million, was NIS 133 million (US$ 34 million), a decrease of 26% compared with 2014, reflecting the impact of the decrease in service revenues, partially offset by the reduction in total operating expenses and the increase in gross profit from equipment sales, explained above.

Adjusted EBITDA. Adjusted EBITDA for the fixed-line segment decreased by 16% from NIS 334 million in 2014 to NIS 279 million (US$ 72 million) in 2015, for the same reasons as the decrease in operating profit. As a percentage of total fixed-line revenues, Adjusted EBITDA for the fixed-line segment in 2015 was 29%, compared with 32% in 2014.

Annex "C"

Date: ______________
Dear Mr. ________________
Letter of Indemnification

1. Partner Communications Company Ltd. ("Partner") hereby undertakes to indemnify you for any liability or expense that you incur or that is imposed on you in consequence of an action or an inaction by you (including prior to the date of this letter), in your capacity of an officer or director in Partner or as an officer or director on behalf of Partner in a company controlled by Partner or in which Partner has a direct or indirect interest (such companies being referred to herein as "Subsidiaries"), as follows:

1.1. Financial liability that you incur or is imposed on you in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator approved by the court; provided, that such liability pertains to one or more of the events set out in Schedule I hereto, which, in the opinion of the Board of Directors of Partner, are anticipated in light of Partner's activities at the time of granting this undertaking and are at the sum or measurement of indemnification determined by the Board of Directors to be reasonable given the circumstances set forth herein;

1.2. Reasonable litigation expenses, including legal fees, that you may incur or for which you will be ordered to pay by a court in the context of proceedings filed against you by or on behalf of Partner or by a third party, or in a criminal proceeding in which you are acquitted or if you are convicted, for an offense which does not require criminal intent; and

1.3. Reasonable litigation expenses, including legal fees that you may incur due to an investigation or proceeding conducted against you by an authority authorized to conduct such investigation or proceeding and which has ended without the filing of an indictment against you and either (i) no financial liability was imposed on you in lieu of criminal proceedings, or (ii) financial liability was imposed on you in lieu of criminal proceedings but the alleged criminal offense does not require proof of criminal intent, within the meaning of the relevant terms in or in the law referred to in the Israeli Companies Law of 1999 (the "Israeli Companies Law"), or in relation to a financial sanction ("itzum caspi").

1.4 Payment to the harmed party as a result of a violation set forth in Section 52.54(a)(1)(a) ((52 ( )(1)( ) of the Israeli Securities Law of 1968 (the "Israeli Securities Law"), including by indemnification in advance.

1.5 Expenses incurred in connection with a Procedure ("halich"), as defined in Section 56.8(a)(1) (56 ( )(1)) of the Israeli Securities Law (a "Procedure"), in connection with any of your affairs including, without limitation, reasonable litigation expenses, including legal fees, including by indemnification in advance.

1.6 Any other liability or expense indemnifiable under any applicable law.

2. Partner may not indemnify you for your liability for: (i) a breach of duty of loyalty towards Partner unless you have acted in good faith and had reasonable grounds to assume that the action would not harm Partner's best interest; (ii) a breach of duty of care done intentionally or recklessly ("pzizut") except for negligence; (iii) an act intended to unlawfully yield a personal profit; (iv) a fine, a civil fine ("knass ezrahi"), a financial sanction ("itzum caspi") or a penalty ("kofer") imposed upon you; and (v) a Procedure ("halich").

Upon the occurrence of an event for which you may be entitled to be indemnified, subject to the terms of this letter (including the limitations as to amount in Section 3.13) and any laws applicable at such time, Partner shall provide you with the necessary payments to cover all your expenses in respect of the legal proceedings in question, so that you will not have to pay for or finance them yourself.

3. Indemnification pursuant to this letter will be subject to applicable law and to the following terms and conditions:

3.1. That you notify Partner within a reasonable time of your learning of any legal proceedings instigated against you in connection with any event that may give rise to indemnification and that you provide Partner, or anyone specified by Partner, with any documents connected to the proceeding in question.

3.2. That Partner reserves the right to represent you in the proceedings or to appoint legal counsel of its choice for this purpose (unless its choice of legal counsel is unacceptable to you on reasonable grounds). Partner or such legal counsel will take all necessary steps to bring the matter to a close and will keep you informed of key steps in the process. The appointed counsel will be bound by a fiduciary duty to you and to Partner. If a conflict of interests should arise between the appointed counsel and yourself, counsel will inform Partner and you will be entitled to appoint a different counsel reasonably acceptable to Partner and the terms of this indemnification agreement shall apply to the new appointment. If Partner should decide to settle by arbitration or by mediation or by settlement, it shall be allowed to do so; provided, that you do not incur any additional expense or liability due to such arbitration, mediation or settlement or that you have otherwise agreed to such arbitration, mediation or settlement. If Partner so requests, you will sign any document that will empower it or any appointed counsel to represent you and defend you in any proceeding as stated above. You will cooperate as reasonably demanded of you with Partner and any appointed legal counsel. Partner shall cover all related expenses so that you will not have to make any payments or incur any expenses yourself.

3.3. That whether or not Partner shall operate in accordance with section 3.2 above, indemnification shall still cover all and every kind of expense incurred by you that is included in section 1 of this letter so that you will not have to pay or finance them yourself. You will not be indemnified for any expenses arising from a settlement, mediation or arbitration unless Partner has agreed to the settlement, mediation or arbitration.

3.4. That upon your request for payment in connection with any event according to this indemnification letter, Partner shall complete all the necessary arrangements required by the law for payment and shall act to receive all necessary authorizations, if demanded. If any authorization should be required for payment, and the payment is not authorized for any reason, this payment or part of it will be subject to the approval of the court (if relevant) and Partner shall act in order to receive authorization.

3.5. That in the event that you are paid for any sums in accordance with this letter of indemnification in connection with a legal proceeding, and later it becomes clear that you were not entitled to such payments, the sums will be considered as a loan given to you by Partner subject to the lowest interest rate for purposes of Section 3(9) of the Income Tax Ordinance (or any other legislation replacing it) which does not cause a taxable benefit. You shall be required to repay such amounts in accordance with the payment arrangements fixed by Partner, and at such time as Partner shall request in writing.

3.6 That you shall remain entitled to indemnification by Partner as provided in this letter of indemnification even when you are no longer an officer or director in Partner or in a Subsidiary on Partner’s behalf, as long as the events that led to the payments, costs and expenses for which indemnification is being sought are a result of an action or an inaction taken by you as such officer or director.

3.7 The terms contained in this letter will be construed in accordance with the Israeli Companies Law and in the absence of any definition in the Israeli Companies Law, pursuant to the Israeli Securities Law. Schedule I hereto constitutes an integral part hereof.

3.8 The obligations of Partner under this letter shall be interpreted broadly and in a manner that shall facilitate its implementation, to the fullest extent permitted by law, including, ipso facto, as further expanded in the future, and for the purposes for which it was intended. Without derogating from the generality of the foregoing, it is clarified that with respect to any expansion of indemnification that is currently, or will in the future be, permitted by law following incorporation of specific provisions in Partner’s Articles of Association, such expansion be in effect ipso facto even prior to such incorporation, based on Article 34.1 of the Articles of Association, which allows indemnification to the fullest extent permitted by law. In the event of a conflict between any provision of this letter and any provision of the law that cannot be superseded, changed or amended, said provision of the law shall supersede the specific provision in this letter, but shall not limit or diminish the validity of the remaining provisions of this letter.

3.9 The indemnification under this letter will enter into effect upon your signing a copy of the same in the appropriate place, and the delivery of such signed copy to Partner. It is hereby agreed that your agreement to accept this letter constitutes your irrevocable agreement that any previous undertaking of Partner for indemnification towards you, to the extent granted, shall become void automatically upon your signing this letter. Notwithstanding the above, if this letter shall be declared or found void for any reason whatsoever, then any previous undertaking of Partner for indemnification towards you, which this letter is intended to replace, shall remain in full force and effect.

3.10 Partner may, in its sole discretion and at any time, revoke its undertaking to indemnify hereunder, or reduce the Maximum Indemnity Amount (as defined in section 3.13 below) thereunder, or limit the events to which it applies, either in regard to all the officers or to some of them, to the extent such change or revocation relates solely to events that occur after the date of such change; provided, that prior notice has been given to you of its intention to do so, in writing, at least 60 days before the date on which its decision will enter into effect. No such decision will have a retroactive effect of any kind whatsoever, and the letter of indemnification prior to such change or revocation, as the case may be, will continue to apply and be in full force and effect for all purposes in relation to any event that occurred prior to such change or revocation, even if the proceeding in respect thereof is filed against you after the change or revocation of the letter of indemnification. In all other cases, this letter may not be changed unless Partner and you have agreed in writing.

3.11 This undertaking to indemnify is not a contract for the benefit of any third party, including any insurer, and is not assignable nor will any insurer have the right to demand participation of Partner in any payment for which an insurer is made liable under any insurance agreement that has been made with it, with the exception of the deductible specified in such agreement. For the avoidance of any doubt in the event of death this letter will apply to you and your estate.

3.12 No waiver, delay, forbearance to act or extension granted by Partner or by you will be construed in any circumstance as a waiver of the rights hereunder or by law, and will not prevent any such party from taking all legal and other steps as will be required in order to enforce such rights.

3.13 The aggregate indemnification amount payable by Partner to all directors, officers and other indemnified persons (including, inter alia, officers and directors nominated on behalf of Partner in Subsidiaries), pursuant to all letters of indemnification issued to them by Partner on or after October 17, 2013, which indemnification letters include a maximum indemnity amount substantially similar to the Maximum Indemnity Amount under this Section 3.13 (the “Maximum Indemnity Amount”), for any occurrence of an event set out in Schedule I hereto (each, an “Event”), will not exceed 25% of shareholders equity (according to the latest reviewed or audited financial statements approved by Partner's Board of Directors prior to approval of the indemnification payment); provided, however, that under the circumstances where indemnification for the same Event is to be made in parallel to you under this letter and to one or more indemnified persons under indemnification letters issued (or to be issued) by Partner containing a maximum indemnity amount which is the higher of 25% of shareholders equity and 25% of market capitalization (the "Combined Maximum Indemnity Amount"), the Maximum Indemnity Amount for you hereby shall be adjusted so it does not exceed the Combined Maximum Indemnity Amount to which any other indemnified person is entitled under any other indemnification letter containing the Combined Maximum Indemnity Amount.

3.14 The Maximum Indemnity Amount shall not be affected in any way by the existence of, or payment under, insurance policies. Payment of the indemnification shall not affect your right to receive insurance payments, if you receive the same (either personally or through Partner or on your behalf) and Partner will not be required to indemnity you for any sums that were, in fact, already paid to you or for you in respect of insurance or any other indemnification obligations made to you by any third party. In the event there is any payment made under this letter and such payment is covered by an insurance policy, Partner shall be entitled to collect such amount of payment from the insurance proceeds. You will return to Partner any amount that you may receive pursuant to this letter, which is based on data or financial results that will later on be found to be erroneous and will be restated in Partner's financial statements, as will be implemented by Partner's Board of Directors.

3.15 If the indemnification amount Partner is required to pay to its directors and other indemnified persons, as mentioned in section 1 above, exceeds at any time the Maximum Indemnity Amount or the balance of the Maximum Indemnity Amount in accordance with section 3.13 above after deducting any indemnification amounts paid or payable by Partner to any of its directors or other indemnified persons at such time (all, as determined and clarified in Section 3.13 above or in the other applicable indemnification letters), such Maximum Indemnification Amount or remaining balance will be allocated among the directors and the other indemnified persons entitled to indemnification, in the same ratio as with respect to any Event the amount for which each individual director or other indemnified person may be indemnified is to the aggregate amount that all of the relevant directors and other indemnified persons involved in the Event may be indemnified.

3.16 The foregoing does not derogate from Partner's right to indemnify you retroactively in accordance with that permitted by the Articles of Association of Partner and applicable law.

You should be aware that, insofar as indemnification for liabilities arising under the United States Securities Act of 1933 (the “U.S. Securities Act”) may be permitted to Partner’s directors and officers, Partner has been advised that in the opinion of the U.S. Securities and Exchange Commission (the “SEC”) such indemnification is against public policy as expressed in the U.S. Securities Act and is, therefore, unenforceable. In the event of a claim for such indemnification, Partner will (in accordance with an undertaking given to the SEC), unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification is against public policy as expressed in the U.S. Securities Act and will be governed by the final adjudication of such issue.

The law of the State of Israel shall govern this Letter of Indemnification and all issues related thereto, without giving effect to any conflicts of law principles. The courts in Tel Aviv, Israel shall have the exclusive local and international jurisdiction, in connection with this Letter of Indemnification, except if an indemnification claim is related to a legal proceeding, already filed by a third party in a different court.

Respectfully,

____
On behalf of
Partner Communications Company Ltd.

I accept the terms and conditions of the above. I am aware that Partner has granted (and may grant) indemnification letters with maximum indemnity amounts different from the Maximum Indemnity Amount under this letter (including, without limitation, the Combined Maximum Indemnity Amount) and consequently, the beneficiaries of those indemnification letters may receive higher indemnification amounts than me, and I will have no claim against Partner in that respect. I am also aware that my agreement to accept this letter constitutes my irrevocable agreement that any previous undertakings of Partner for indemnification, to the extent granted, should become void automatically upon my signing this letter. Notwithstanding the above, if this indemnification letter shall be void for any reason whatsoever, then, any previous undertaking of Partner for indemnification towards me shall remain in full force and effect.

Signature: _____________

Name: ________________

Date: ________________

Schedule I

Subject to the provisions of the law, the following are the events referred to in section 1.1 of the Letter of Indemnification:

1. Any offering of Partner’s securities to private investors and/or to the public and listing of such securities, and/or the offer by Partner to purchase securities from the public and/or from private investors or other holders, and any undertakings, representations, warranties and other obligations related to any such offering and Partner’s status as a public company or as an issuer of securities.

Without limiting the generality of the foregoing, Partner's public offering of equity in 1999, public offering of debt securities in 2000, public offering of debt securities in 2005 (including any subsequent offer and sale of the debt securities of that class), redemption of debt securities in 2005, shelf registration in 2009, private offering of debt securities in 2009, public offering of debt securities in 2010, private offering of debt securities in 2011, public offering of debt securities in 2011 and shelf registration in 2012.

2. All matters relating to Partner’s status, obligations and/or actions as a public company, and/or the fact that Partner’s securities were issued to the public or to private investors and/or are or were traded on a stock exchange (including, without limitation, Nasdaq stock market, the Tel Aviv Stock Exchange and the London Stock Exchange), whether in Israel or abroad.

3. The erection, construction and operation of Partner’s mobile telephone network, including the erection and operation of antennas and other equipment and environmental issues, including undertakings, activities and communications with authorities regarding the foregoing and including the work performed by Partner’s subcontractors in connection therewith.

4. The purchase, distribution, marketing and sale of handsets, other terminal equipment and any other of Partner’s products and/or any marketing plans and/or publications.

5. A Transaction, Extraordinary Transaction, or an Activity within the meaning of Section 1 of the Israeli Companies Law, including negotiations for entering into a Transaction or an Activity, the transfer, sale, acquisition or charge of assets or liabilities (including securities) or the grant or acceptance of a right in any one of them, receiving credit and the grant of collateral, as well as any act directly or indirectly involving such a Transaction or Activity.

6. Investments which Partner and/or its Subsidiaries and/or its affiliates make in other entities whether before and/or after the investment is made, entering into the transaction, the execution, development and monitoring thereof, including actions taken or alleged omissions by you in the name of Partner and/or any subsidiary thereof and/or any affiliates thereof as a director, officer, employee and/or a board observer of the entity which is the subject of the transaction and the like.

7. The merger acquisition or other business combination or restructuring, or any such proposed transaction and any decision related to it (by Partner or another person) of Partner, any subsidiary thereof and/or any affiliate thereof with, of or into another entity and/or the sale or proposed sale of the operations and/or business, or part thereof, or any dissolution, receivership, creditors' arrangement, stay of proceeding or any similar proceeding, of Partner, any of its Subsidiaries and/or any of its affiliates.

8. Tender offers for Partner's securities, including in connection with Partner's Board of Directors' opinion regarding a Special Tender Offer as defined in the Israeli Companies Law or refraining from such opinion.

9. Labor relations and/or employment matters in Partner, its Subsidiaries and/or its affiliates and trade relations of Partner, its Subsidiaries and/or its affiliates, including with independent contractors, customers, suppliers and service providers.

10. The testing of products developed and/or marketed by Partner, its Subsidiaries and/or its affiliates and/or in connection with the distribution, sale, license or use of such products.

11. The intellectual property of Partner, its Subsidiaries and/or its affiliates, and its protection, including the registration or assertion of rights to intellectual property and the defense of claims relating to intellectual property infringement.

12. Actions taken (or alleged omissions) pursuant to or in accordance with the policies and procedures of Partner, its Subsidiaries and/or its affiliates, whether such policies and procedures are published or not.

13. The borrowing or other receipt of funds and any other financing transaction or arrangement, or any such proposed transaction or arrangement, whether or not requiring the imposition of any pledge or lien.

14. Any Distribution (“haluka” - as defined in the Israeli Companies Law).

Without limiting the generality of the foregoing, any share repurchase and distribution of dividends, including, without limitation, in 2005 and distribution of dividends during the calendar years of 2006, 2007, 2008, 2009, 2010 (including the special dividend distribution as of March 2010, approved by the District Court), 2011 and 2012.

15. Taking part in or performing tenders.

16. The making of any statement, including a representation or opinion made by an officer or director of Partner in such capacity whether in public or private, including during meetings of the Board of Directors or any committee thereof.

17. An act in contradiction to the Articles of Association or Memorandum of Partner.

18. Any action or omission in connection with voting rights in Partner.

19. Any action or decision in relation to work safety and/or working conditions.

20. Actions taken pursuant to any of Partner’s licenses, or any breach thereof.

21. Decisions and/or actions pertaining to the environment and/or the safety of handsets, including radiation or dangerous substances.

22. A payment to the harmed party as a result of a violation set forth in Section 52.54(a)(1)(a) (52 ( )(1)( )) of the Israeli Securities Law.

23. Negotiation for, signing and performance or non-performance of insurance policies.

24. Events associated with the drawing up and/or approval of financial statements, including the acts or omissions relating to the adoption of financial reports (including International Financial Reporting Standards IFRS), preparation and signing Partner's financial statements, consolidated or on a sole basis, as applicable, as well as the editing or approval of the Directors' report or business plans and forecasts, providing an estimate of the effectiveness of Partner's internal controls and other matters in connection with the financial statements and Directors' report and provision of statements relating to the financial statements.

25. Events associated with business plans, including pricing, marketing, distribution, directives to employees, customers and suppliers and collaborations with other parties.

26. Reporting and/or filing of applications or reports, under any applicable law (including immediate reports, periodic or other), disclosure, messaging, providing (or failure to provide) information, statements, declarations, evaluations, presentations, opinions, reviews, requests for approval, or otherwise to any governmental or quasi-governmental authority, stock exchange or regulatory body whether in Israel or abroad.

27. Actions and any legal process, whether in Israel or abroad, relating, directly or indirectly, to any governmental or quasi-governmental authority, including with respect to trade restrictions, restrictive arrangements, mergers and monopolies.

28. Investigations conducted against you by any governmental or quasi-governmental authority.

29. Class actions, including class actions in respect of the environment, consumer protection or complaints, roaming, content services, the Communications Law of 1982, any of Partner’s licenses, Partner’s contracts, and anti-trust, derivative actions or any other legal proceedings against you and/or Partner and/or any of its Subsidiaries in connection with your role and/or activities in Partner or on its behalf.

30. All matters relating to the change of control transaction, entered into on August 12, 2009, between Advent Investments Pte. Ltd. and Scailex Corporation Ltd. (“Scailex”), under which Scailex agreed to acquire 78,940,104 Ordinary Shares of Partner.

31. All matters relating to a potential sale of Partner’s securities by Scailex Corporation Ltd., any affiliates thereof or any other Material Shareholder (“ba’al menaya mahuti”) of Partner.

32. Transactions or agreements entered into between Partner and any of its shareholders or between shareholders of Partner.

33. Transfer of information to shareholders or potential shareholders of Partner, including Interested Parties.

34. All matters relating to breach of Partner contracts.

35. Activities Partner may pursue in new areas such as transmission services, access to high-speed Internet services, fixed line and long-distance telephony services, cable television and other communication services to subscribers.

36. Establishment, registration, administration, or making use of registries and information databases, including as required by the provisions of the Protection of Privacy Law of 1981 (including regulations, orders, directives, rules or provisions and instructions) issued by any competent authority or by virtue of those authorities and any decision or other action relating to said law.

37. A suspicion as to perpetration of an offence and/or breach of a statutory obligation under any law because of an action taken by Partner and that, according to any law, can also be attributed to you and/or because of an action taken by you by virtue of your function as officer or director in Partner and/or that was taken for the sake of Partner and/or on its behalf.

38. A payment or non-payment to any governmental authority under any applicable law, including the payment of income tax, sales tax, betterment tax on real estate, transfer taxes, excise, value added tax, stamp tax, customs, National Insurance payments, municipal levies, royalty fees or any other fees, levies, financial sanction ("itzum caspi") in connection with any of Partner’s licenses, and including any kind of fines, interest and linkage increments.

39. Any other actions which can be anticipated for companies of the type of Partner, and which the Board of Directors may deem appropriate.

40. Any of the foregoing events, relating to your service as an officer or director in any of Partner's Subsidiaries on Partner's behalf.

41. Any of the foregoing events, as it may relate to 012 Smile Telecom Ltd. or to any company in which it has a direct or indirect interest.

In each of the events specified above, including, without limitation, in connection with documents relating to these matters, and in connection with actions or decisions relating to these matters, and in connection with representations and undertakings made relating to these matters, including, without limitation, such representations and undertakings made towards third parties (including, without limitation, governmental authorities) or towards Partner or anyone on its behalf (including, without limitation, advisors, such as accountants, lawyers, etc.).

In each of the events specified above, reference to any action includes also failure to perform an action (omission) or performing it poorly (including, without limitation, non- performance of an action required under law or performing it in a poor manner that does not comply with the legal requirements), and including, without limitation, making a decision; in each case, unless the context in a specific item above does not allow this interpretation.

Annex D

Articles of Association
of
Partner Communications Company Ltd.

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