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**PARTNER COMMUNICATIONS COMPANY LTD.**  
**(An Israeli Corporation)**  
**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**AT SEPTEMBER 30, 2009**  
**(Unaudited)**

**PARTNER COMMUNICATIONS COMPANY LTD.**  
(An Israeli Corporation)  
**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**AT SEPTEMBER 30, 2009**  
(Unaudited)

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### Auditors' review Report to the shareholders of Partner Communications Company Ltd.

#### Introduction

We have reviewed the accompanying interim financial information of Partner Communications Company Ltd. (the "Company"), including the consolidated interim financial position as of June September 30, 2009, the related consolidated statements of income and comprehensive income for the periods of nine and three months then ended and changes in the Company's equity and cash flows for the period of nine months then ended. The Board of Directors and management are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

#### Scope of Review

We conducted our review in accordance with Israel Review Standard No. 1, issued by the Israeli Institute of Certified Public Accountants, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing principles generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, under IAS 34.

PRICEWATERHOUSECOOPERS 

We draw your attention to note 2, which discusses the adoption of the International Financial Reporting Standards ("IFRS") by the Company effective January 1, 2009. Comparative data in these interim financial statements as of December 31, 2008 and for the year then ended and as of September 30, 2008 and for the periods of nine and three months then ended, which were originally prepared under generally accepted accounting principles in United States ("US GAAP") were restated to retrospectively reflect the application of IFRS as from January 1, 2008, which is the transition date to reporting under IFRS applicable to the Company, under International Financial Reporting Standard No. 1 - "First-Time Adoption of International Financial Reporting Standards". See also note 10.

In addition, we draw your attention to the claims and a motion to certify those claims as class actions, which were filed against the Company on April 22, August 17 and August 24, 2009. The total amount claimed from the Company with regard to the above mentioned claims have been estimated by the plaintiffs to be approximately NIS 109, NIS 228 and NIS 982 million, respectively, assuming that they would be recognized as class actions. Due to the early stages of the procedures, the Company is unable to estimate the effect of those claims on its financial results, if any.

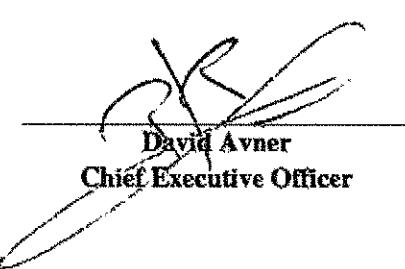
Tel-Aviv, Israel  
November 9, 2009

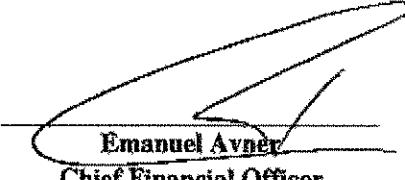


Kesselman & Kesselman  
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A member of PricewaterhouseCoopers  
International Limited

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

Note	New Israeli shekels		September 30, 2009 (Unaudited)	September 30, 2008 (Unaudited)	September 30, 2009 (Unaudited)	Convenience translation into U.S. dollars (note 2a)
	September 30, 2009	December 31, 2008				In millions
	(Unaudited)	(Unaudited)				
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	33	184				9
Trade receivables	1,234	1,103				329
Other receivables	43	32				11
Inventories	5	147				39
Income tax receivable		9				2
Derivative financial instruments		32				9
	<u>1,498</u>	<u>1,471</u>				<u>399</u>
<b>NON CURRENT ASSETS</b>						
Trade Receivables	452	417				120
Property and equipment	2,048	1,935				545
Licenses and other intangible assets	1,270	1,261				338
Deferred income taxes	37	81				10
	<u>3,807</u>	<u>3,694</u>				<u>1,013</u>
<b>TOTAL ASSETS</b>	<u>5,305</u>	<u>5,165</u>				<u>1,412</u>

  
 David Avner  
 Chief Executive Officer

  
 Emanuel Avner  
 Chief Financial Officer

Date of approval of the financial statements: November 9, 2009

	Note	New Israeli shekels September 30, 2009 (Unaudited)	Convenience translation into U.S. dollars (note 2a)	
			September 30, 2008 (Unaudited)	September 30, 2009 (Unaudited)
			In millions	
<b>CURRENT LIABILITIES</b>				
Current maturities of long term liabilities and short term loans		751	568	200
Trade payables		868	819	231
Parent group - trade		3	4	1
Other liabilities		266	294	70
Provisions		29		8
Derivative financial instruments		21	7	6
Dividend payable		230		61
Income tax payable			42	
		<u>2,168</u>	<u>1,734</u>	<u>577</u>
<b>NON CURRENT LIABILITIES</b>				
Notes payable		1,115	1,613	297
Liability for employee rights upon retirement, net		46	53	12
Asset retirement obligation		26	23	7
Other liabilities		9	10	2
		<u>1,196</u>	<u>1,699</u>	<u>318</u>
<b>TOTAL LIABILITIES</b>		<u>3,364</u>	<u>3,433</u>	<u>895</u>
<b>EQUITY</b>	7			
Share capital - ordinary shares of NIS 0.01 par value: authorized - December 31, 2008, and September 30, 2009 - 235,000,000 shares; issued and outstanding -				
December 31, 2008 - 153,419,394 shares				
September 30, 2009 - 154,070,722 shares		2	2	1
Capital surplus		2,470	2,446	657
Accumulated deficit		(180)	(365)	(48)
Treasury shares, at cost -				
December 31, 2008 and September 30, 2009 - 4,467,990 shares		(351)	(351)	(93)
<b>TOTAL EQUITY</b>		<u>1,941</u>	<u>1,732</u>	<u>517</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>5,305</u>	<u>5,165</u>	<u>1,412</u>

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

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

	Note	New Israeli shekels				Convenience translation into U.S. dollars	
		9 month period ended September 30		3 month period ended September 30		9 month period ended September 30,	3 month period ended September 30,
		2009	2008	2009	2008	2009	2009
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues	6	4,501	4,749	1,575	1,629	1,198	419
Cost of revenues	6	2,773	2,908	1,003	958	738	267
Gross profit		1,728	1,841	572	671	460	152
Selling and marketing expenses		292	298	107	94	78	29
General and administrative expenses		222	201	80	69	59	21
Other income		55	51	16	14	15	4
<b>Operating profit</b>		<b>1,269</b>	<b>1,393</b>	<b>401</b>	<b>522</b>	<b>338</b>	<b>106</b>
Finance income		22	42	7	3	6	2
Finance expenses		157	189	68	74	42	18
Finance costs, net		135	147	61	71	36	16
<b>Profit before income tax</b>		<b>1,134</b>	<b>1,246</b>	<b>340</b>	<b>451</b>	<b>302</b>	<b>90</b>
Income tax expenses		287	338	77	121	77	20
<b>Profit for the period</b>		<b>847</b>	<b>908</b>	<b>263</b>	<b>330</b>	<b>225</b>	<b>70</b>
<b>Earnings per share</b>							
Basic		5.51	5.82	1.71	2.14	1.47	0.46
Diluted		5.48	5.77	1.70	2.12	1.46	0.45
<b>Weighted average number of shares outstanding (in thousands)</b>							
Basic		153,671	156,011	153,902	154,383	153,671	153,902
Diluted		154,525	157,275	154,827	155,532	154,525	154,827

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

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

	New Israeli shekels				Convenience translation into U.S. dollars	
	9 month period ended September 30		3 month period ended September 30		9 month period ended September 30,	3 month period ended September 30,
	2009	2008	2009	2008	2009	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
In millions						
Profit for the period	847	908	263	330	225	70
<b>Other comprehensive income (losses)</b>						
Actuarial gains (losses) from defined benefit plan	8	(2)	(1)			2
Tax	(2)	1				
<b>Other comprehensive income for the period, net of tax</b>	6	(1)	(1)			2
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b>853</b>	<b>907</b>	<b>262</b>	<b>330</b>	<b>227</b>	<b>70</b>

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

## PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital		Capital surplus <small>(in millions)</small>	Accumulated deficit <small>(in millions)</small>	Treasury shares	Total
	Number of shares	Amount				
<b>New Israel Shekels:</b>						
<b>BALANCE AT JANUARY 1, 2009 (Unaudited)</b>	157,887,384	2	2,446	(365)	(351)	1,732
<b>CHANGES DURING THE 9 MONTHS ENDED</b>						
<b>SEPTEMBER 30, 2009 (unaudited):</b>						
Total comprehensive income for the period						853
Exercise of options granted to employees	651,328	*	24		15	24
Employee share-based compensation expenses, net				(633)		15
Dividend	158,538,712	2	2,470	(180)	(351)	(631)
<b>BALANCE AT SEPTEMBER 30, 2009 (unaudited)</b>	157,887,384	1	651	(97)	(93)	1,941
<b>Convenience translation into us. dollars (note 2a):</b>						
<b>BALANCE AT JANUARY 1, 2009 (Unaudited)</b>						
<b>CHANGES DURING THE 9 MONTHS ENDED</b>						
<b>SEPTEMBER 30, 2009 (unaudited):</b>						
Total comprehensive income for the period					227	227
Exercise of options granted to employees	651,328	*	6		4	6
Employee share-based compensation expenses, net				(182)		4
Dividend	158,538,712	1	657	(98)	(93)	(182)
<b>BALANCE AT SEPTEMBER 30, 2009 (unaudited)</b>						517

\* Less than 1 million.

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

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

	Share capital		Capital surplus (in millions)	Accumulated deficit (in millions)	Treasury shares	Total
	Number of shares	Amount				
<b>New Israel Shekels:</b>						
<b>BALANCE AT JANUARY 1, 2008 (Unaudited)</b>						
<b>CHANGES DURING THE 9 MONTHS ENDED</b>						
<b>SEPTEMBER 30, 2008 (unaudited):</b>						
Total comprehensive income for the period						
Exercise of options granted to employees	486,232	*	14	907	907	907
Employee share-based compensation expenses, net				7	7	14
Dividend				(706)	(706)	7
Purchase of company's shares by the company						(706)
<b>BALANCE AT SEPTEMBER 30, 2008 (unaudited)</b>						(351)
<b>BALANCE AT JANUARY 1, 2009 (Unaudited)</b>						1,686

\* Less than 1 million.

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

**PARTNER COMMUNICATIONS COMPANY LTD.**

(An Israeli Corporation)

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	New Israeli shekels	(note 2a)	Convenience translation into U.S. dollars
	9 month period ended September 30,		
	2009	2008	2009
	(Unaudited)	(Unaudited)	(Unaudited)
	In millions		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash generated from operations (Appendix)	1,615	1,766	430
Income tax paid	(290)	(299)	(77)
Net cash provided by operating activities	<u>1,325</u>	<u>1,467</u>	<u>353</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of property and equipment	(429)	(329)	(114)
Acquisition of intangible assets	(167)	(24)	(44)
Proceeds from (payments for) derivative financial instruments, net	31	(26)	8
Net cash used in investing activities	<u>(565)</u>	<u>(379)</u>	<u>(150)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from exercise of stock options granted to employees	24	14	6
Dividend paid	(471)	(694)	(125)
Repayment of capital lease	(6)	(5)	(2)
Purchase of company's shares by the company		(351)	
Interest paid	(68)	(68)	(18)
Short term loans	(20)	20	(5)
Repayment of long term bank loans		(21)	
Repayment of notes payable	(370)		(99)
Net cash used in financing activities	<u>(911)</u>	<u>(1,105)</u>	<u>(243)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(151)</b>	<b>(17)</b>	<b>(40)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>184</b>	<b>148</b>	<b>49</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>33</b>	<b>131</b>	<b>9</b>

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

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

**Appendix – Cash generated from operations and supplemental information**

	New Israeli shekels		Convenience translation into U.S. dollars (note 2a)	
	9 month period ended September 30,			
	2009 (Unaudited)	2008 (Unaudited)		
	In millions			
<b>Cash generated from operations:</b>				
Profit for the period	847	908	225	
Adjustments for net income for the period:				
Depreciation and amortization	414	350	110	
Amortization of deferred compensation related to employee stock option grants, net	15	7	4	
Liability for employee rights upon retirement, net	1	4		
Finance costs, net	74	103	20	
Gain from change in fair value of derivative financial instruments	(22)	(16)	(6)	
Interest paid	68	68	18	
Deferred income taxes	42	26	11	
Income tax paid	290	299	77	
Capital loss on sale of fixed assets	2	1	1	
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable:				
Trade	(166)	83	(44)	
Other	(11)	8	(3)	
Increase (decrease) in accounts payable and accruals:				
Parent group- trade	(1)	2		
Trade	104	(62)	28	
Other	31	(33)	8	
Income tax payable	(51)	12	(14)	
Increase in inventories	(22)	6	(5)	
<b>Cash generated from operations:</b>	<b>1,615</b>	<b>1,766</b>	<b>430</b>	

At September 30, 2009 and 2008, trade payables include NIS 165 million (\$44 million) (unaudited) and NIS 182 million (unaudited) in respect of acquisition of fixed assets, respectively.

These balances will be given recognition in these statements upon payment.

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

## PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

#### **NOTE 1 - GENERAL:**

Partner Communications Company Ltd. ("the Company", "Partner") operates a mobile telecommunications network in Israel. The Company is a subsidiary of Scailex Corporation Ltd ("Scailex"). The Company has its primary listing on the NASDAQ Global Market. The address of the Company's Principal Executive Offices is 8 Amal Street, Afeq Industrial Park, Rosh-Ha'ayin 48103, Israel.

On October 28, 2009 a transaction was closed between Advent Investments Pte Ltd. ("Advent") a wholly-owned subsidiary of Hutchison Telecommunications International Limited ("Hutchison Telecom") and Scailex Corporation Ltd. ("Scailex"), an Israeli corporation listed on the Tel Aviv Stock Exchange, pursuant to which Advent sold to Scailex its entire 51.2 % equity interest in Partner for a consideration of approximately NIS 5.3 billion, which represents approximately NIS 67 per Partner share. In parallel to the closing of the transaction, and as a result of various subsequent transactions, Scailex and its affiliates hold approximately 45% of Partner's outstanding shares as of October 29, 2009.

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:**

##### **a. Basis of preparation of the financial information**

This interim condensed consolidated financial information of the Company as of September 30, 2009 ("the financial information") has been prepared in accordance with IAS 34, *Interim financial reporting*. This is the Company's interim condensed financial information that was prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB).

IFRSs are standards and interpretations that have been adopted by the International Accounting Standards Board. These standards include:

- (a) International Financial Reporting Standards (IFRSs);
- (b) International Accounting Standards (IASs), and;
- (c) Interpretations by the International Financial Reporting Interpretation Committee (IFRICs) or its predecessor, the Standing Interpretations Committee (SICs).

The transition date to IFRS for the Company under IFRS1 is January 1, 2008 (the "transition date"). Comparative data of the Company in this financial information was restated to retrospectively reflect the adoption of IFRS as from the transition date. As to the effect of the transition from reporting under generally accepted accounting principles in the United States of America ("US GAAP") to reporting under IFRS on comparative data in the interim financial information, and exemptions elected by the Company under IFRS1 – See note 10.

The financial information is in the scope of IFRS1 *First Time Adoption of International Financial Reporting Standards* ("IFRS1") because it covers part of the period that will later be included in the annual financial information of the Company for the year ending December 31, 2009, that will be prepared for the first time under IFRS.

The financial information has been prepared in accordance with International Financial Reporting Standards that have been issued, became effective as this financial information was in preparation. IFRSs that will be effective December 31, 2009, including those that could be applied voluntarily, are not known in certainty as of the date of preparing this financial information.

**PARTNER COMMUNICATIONS COMPANY LTD.**

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):****a. Basis of preparation of the financial information (continued)**

The financial information has been prepared in conformity with (IFRS) IAS 34 *Interim financial reporting*. IAS 34 requires the use of certain critical estimated, and requires management to exercise its judgment in the process of applying the Company's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in note 4. Actual results may differ materially from estimates and assumptions used by the Company's management.

Costs incurred unevenly during the year are brought forward or deferred for interim reporting purposes if, and only if, it is appropriate to bring forward or defer such costs at the end of the reporting year.

Income tax for interim periods is included based on the best management estimate of the anticipated average annual tax rate for the entire year.

The financial information has been prepared on the basis of historical cost convention except for the following assets and liabilities:

- (a) Derivative financial instruments are measured and presented at their fair values.
- (b) Property and equipment were revalued to the fair value on the transition date, see note e below.
- (c) The value of non monetary assets and equity items that were measured on the basis of historical cost, have been adjusted for changes in the general purchasing power of the Israeli currency -NIS, based upon changes in the Israeli Consumer Price Index ("CPI") until December 31, 2003, as until that date the Israeli economy was considered hyperinflationary according to IFRS, See note 10.

Convenience translation into U.S Dollars (USD or \$):

The NIS figures at September 30, 2009 and for the period then ended have been translated into dollars using the representative exchange rate of the dollar at September 30, 2009 (\$1 = NIS 3.758). The translation was made solely for convenience. The translated dollar figures should not be construed as a representation that the Israeli currency amounts actually represent, or could be converted into, dollars.

**PARTNER COMMUNICATIONS COMPANY LTD.**

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):****b. Translation of foreign currency transactions and balances**

Items included in the financial information are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial information is presented in New Israeli Shekels ("NIS"), which is the Company's functional and presentation currency.

Balances in, or linked to, foreign currency are stated on the basis of the exchange rates prevailing at the balance sheet date. For foreign currency transactions included in the statements of income, the exchange rates at transaction dates are used. Transaction gains or losses arising from changes in the exchange rates used in the translation of such balances are carried to financial income or expenses.

**c. Principles of consolidation**

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights.

- 1) The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary and Partnership.
- 2) Intercompany balances and transactions between the Group's entities have been eliminated.

**d. Inventories**

Inventories of cellular telephones (handsets), accessories and inventory related to Internet Service Provider (ISP) are stated at the lower of cost or net realizable value. Cost is determined on the "first-in, first-out" basis. The Company determines its allowance for inventory obsolescence and slow moving inventory, based upon expected inventory turnover, inventory aging and current and future expectations with respect to product offerings.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):**

**e. Property and equipment**

Property and equipment are initially recognized at acquisition cost. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

The Company adopted an exemption provided in IFRS1, allowing to measure the Company's property and equipment as of the transition date to IFRS at fair value, and to use this value as its deemed cost of that date. The deemed cost was based upon an appraisal, performed by management with the assistance of independent appraisers. The appraisal was based on considering the different elements and components of the property and equipment, and assigning them the appropriate estimation of useful live and fair value.

Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

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

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

The Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

**f. Asset retirement obligation**

The Company recognizes a provision in respect of asset retirement obligation (ARO) to dismantle and remove assets and to restore sites on which the assets were located in the period in which it is incurred and becomes determinable, with an offsetting increase in the carrying amount of the associated asset. The additional cost added to the tangible asset initially recognized with the ARO, is depreciated such that the cost of the ARO is recognized over the useful life of the asset.

The ARO is recorded at fair value, and the accretion expense will be recognized over time as the discounted liability is accreted to its expected settlement value. The fair value of the ARO is measured using expected future cash out flows discounted pre-tax rate reflecting the current market assessments of the time value of money and the risks specific to the liability.

Changes in the obligation other than changes deriving from the passing of time are added or deducted from the cost of the asset in the period in which they occur.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):****g. Licenses and other intangible assets****1) Licenses:**

The licenses to operate a cellular communication services are recognized at cost and are amortized using the straight line method over their estimated useful lives –the period ending in 2022.

Borrowing costs which served to finance the license fee - incurred until the commencement of utilization of the license - were capitalized to cost of the license.

The license for providing fixed-line telephone services is stated at cost and is amortized by the straight-line method over the contractual period of 20 years, starting in 2007.

**2) Customer relationships with carriers**  
Customer relationships with carriers are amortized over the estimated useful life which is 7 years using the straight-line method. Customer relationships with business customers are amortized over the estimated useful life which is 5 years using the straight-line method.**3) Computer software:**

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and to bring to use the specified software. These costs are amortized over their estimated useful lives (3 to 7 years) using the straight-line method.

Costs associated with maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with the developing softwares controlled by the Company are recognized as intangible assets, and amortized over their estimated useful lives (3 to 7 years). Direct costs include costs of software development employees and an appropriate portion of relevant overheads.

**4) Subscriber Acquisition and Retention Costs (SARC):**

Costs to acquire or retain postpaid mobile telecommunication customers, pursuant to a contract with early termination penalties are in some cases capitalised if (1) such costs are identifiable and controlled; (2) it is probable that future economic benefits will flow from the customers to the Company; and (3) such costs can be measured reliably.

Subsidies on handsets sales, which are calculated by deducting the customer's payment toward the handset from the cost of the handset, and sales commissions, are included in the customer acquisition and retention costs. Capitalized customer acquisition and retention costs are amortized over their expected useful life which is not longer than their minimum enforceable period, which is generally a period of 18 months, using the straight-line method. In the event that a customer churns off the network within the period, any unamortized customer acquisition or retention costs are written off in the period in which the customer churns.

Costs to acquire pre-paid telecommunication customers are expensed in the period incurred.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):**

**h. Impairment of non-financial assets**

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

**i. Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**1. Financial assets at fair value through profit and loss:**

This category includes embedded derivative financial instruments and derivative financial instruments that are categorized as fair value through profit and loss. Assets in this category are classified as current assets if they expected to mature within a year after the balance sheet date.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "financial income (expenses), net" in the period in which they arise.

**2. Loans and receivables:**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are recognized initially at fair value and subsequently measured at amortized costs using the effective interest method.

The Company's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the statement of financial position.

Ordinary purchases and sales of financial assets are carried at the date of settlement, which is the date that an asset is delivered to or by the Company.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):****j. Cash and Cash equivalents**

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

**k. Trade Receivables**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment (allowance for doubtful accounts). The allowance is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, or delinquency or default in debtor payments are considered indicators that trade receivable is impaired. The amount of the allowance is determined as a percentage of specific debts doubtful of collection, based upon historical experience and future expectations.

The Company factors most of its long-term trade receivables resulting from sales of handsets by credit cards. The factoring is executed through clearing company, on a non-recourse basis. The sale of accounts receivable is recorded by the Company as a sales transaction under the provisions of IAS 39 *financial instruments: recognition, and measurement*.

The losses from the factoring transaction are charge to financial expenses on the transaction date.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):****l. Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings includes notes payable, short term loan from bank, and liability in respect of capital lease.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**m. Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

**n. Employee benefits****1. Defined benefit plan**

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

The retirement benefit obligation as recognized in the statement of financial position is the present value of the defined benefit obligation at balance sheet date less the fair values of plan assets. The defined benefit obligation is calculated semi-annually using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows (after taking into account the expected rate of salary increases) using interest rates of Israeli Government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):**

**n. Employee benefits (continued)**

Under IAS19 *Employee Benefits* ("IAS19"), the discount rate used for computing actuarial liability will be determined using market yields of high-quality corporate bonds at the balance sheet date. However, IAS19 points out that in countries where there is no deep market in such bonds, the yield of government bonds should be used instead. Therefore, the interest rate used by the Company to discount expected future cash flows for the purpose of computing the actuarial commitment is determined based on the interest rate of Israeli Government bonds since the Company's management is in the opinion that Israel does not have a deep market for high-quality bonds.

The Company carries to equity actuarial gains and losses resulting from changes in actuarial valuation and differences between past assumptions and actual results directly to equity (under the comprehensive income statements), in the period in which they arise. The amounts funded represent "plan assets", as defined by IAS19, and therefore deducted from the balance of the retirement benefit obligation for the statement of financial position presentation. The Company classifies interest expenses in respect of the retirement benefit obligation and the expected returns from the plan assets as part of finance costs.

**2. Vacation and recreation benefits**

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

**3. Share based payment**

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

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

**4. Profit-sharing and bonus plans**

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

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):****a. Provisions**

Provisions are recognized when the Company has legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to the passage of time is recognized as finance costs.

**b. Revenues**

The Company's revenues are measured at fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business.

Revenue is shown net of Value-Added-Tax, returns, rebates and discounts.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and when specific criteria have been met for each of the Company's activities as described herein.

**(1) Revenues from services:**

Revenues from services primarily consist of charges of airtime, derived from usage of the Company's networks, including interconnect, roaming, and value added services. Revenues are recognized when the services are rendered, and all other revenue recognition criteria are met, net of credits and service discounts.

Value added services include voice mail, text and multimedia messaging, as well as downloadable wireless data applications, including ring tones, music, games, and other informational content. Generally, these enhanced features and data application generate additional service revenues through monthly subscription fees of increased usage utilization of the features and applications. Other optional services, such as equipment extended warranty plans are also provided for a monthly fee and are either sold separately or included in packages rate plans.

When the Company acts as an agent or an intermediary without bearing the risks and rewards resulting from the transaction, revenues are presented on a net basis (as a profit or a commission). However, when the Company acts as a principal supplier and bears the risks and rewards resulting from the transaction, revenues are presented on a gross basis, distinguishing the revenue from the related expenses.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):****p. Revenues (continued)****(2) Revenues from sales of handsets and related accessories:**

Revenue is recognized when the significant risks and reward of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement in regards to the goods, and the amount of revenue can be measured reliably.

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

The Company determines the fair value of the individual elements based on prices at which the deliverable is regularly sold on a stand alone basis.

The Company subsidizes the sale of the handset to end customers by selling it at a price below its cost to secure a fixed-term service contract for the purpose of acquiring new customers or retaining existing customers. 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 customer acquisition and retention costs in accordance with accounting policy set out in note 2(g)(4). The subsidy represents the difference between the cost of the handset and the payment received from the customer for the handset.

**(3) Revenues from long-term credit arrangements:**

Revenues from long-term credit arrangements to customers are recognized on the basis of the present value of future cash flows, discounted according to market interest rates at the time of the transaction. The difference between the original credit and its present value is recorded as other income over the credit period.

**(4) Revenues from Pre-paid calling cards:**

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

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):**

**q. 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 period of the lease.

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of the finance balance outstanding. The corresponding rental obligation, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under financial leases is depreciated over the shorter of the useful live of the asset and the lease term.

**r. Advertising expenses**

Advertising expenses are charged to the statement of income as incurred.

**s. Income taxes**

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date. The Company recognized deferred tax in full, using the liability method, on temporary differences arising between the carrying amounts in the financial statements of assets and liabilities and their tax bases.

Deferred income taxes are determined utilizing the asset and liability method, based on the differences between the amounts presented in these financial statements and those taken into account for tax purposes, in accordance with the applicable tax laws.

Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax is realized or the deferred income tax liability is settled. Deferred tax balances are computed at the tax rates expected to be in effect at the deferred tax asset is utilized or the deferred tax liability is settled, based on the tax laws enacted. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is not provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, since the timing of the reversal of the temporary differences is controlled are the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):**

**t. Treasury shares**

Treasury shares acquired by the Company are presented as a reduction of equity, at the consideration paid.

**u. Earning Per Share (EPS)**

Basic EPS is computed by dividing net income by the weighted average number of shares outstanding during the years, net of treasury shares.

Diluted EPS reflects the increase in the weighted average number of shares outstanding that would result from the assumed exercise of employee stock options, calculated using the treasury-stock-method.

**NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:**

The following new standards, amendments to standards or interpretations have been issued, but are not effective for the financial year beginning 1 January 2009, and have not been early adopted:

\* IFRS 3 (revised), *Business combinations* and consequential amendments to IAS 27, *Consolidated and separate financial statements*, IAS 28, *Investments in associates* and IAS 31, *Interests in joint ventures*, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Company. The Company does not have any joint ventures.

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (revised) to all business combinations from January 1, 2010

\* IFRIC 17, *Distributions of non-cash assets to owners*, effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Company, as it has not made any non-cash distributions.

\* IFRIC 18, *Transfers of assets from customers*, effective for transfers of assets received on or after 1 July 2009. This is not relevant to the Company, as it has not received any assets from customers

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (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 company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**Revenue Recognition:**

The Company recognizes service revenues based upon minutes used, net of credits and adjustments for service discounts. Revenues from pre-paid calling cards are recognized upon customer's usage of the cards. Because the Company's billing cycles use cut-off dates, which for the most part do not coincide with the Company's reporting periods, The Company is required to make estimates for service revenues earned but not yet billed at the end of each reporting period. These estimates are based primarily upon historical data and trends. In certain cases, cellular handsets are sold to subscribers within the context of airtime packages, in order to divide the revenues into separate units of accounting; The Company is required to estimate the fair value of each deliverable. These estimates are based upon the price of each deliverable when it is sold on a stand alone basis. The amount allocable to the delivered item (the handset) is limited to the amount that is not contingent upon the delivery of any additional services under the contract (airtime services). Actual billing cycle results and related revenue may vary, depending on subscriber usage and rate plan mix, from the results estimated at the end of each period. See note 2(g)(4) regarding Subscriber Acquisition and Retention Costs, and note 2(p)(2) regarding revenue from arrangement with multiple deliverables.

**Property and equipment and other intangible assets:**

The Company has substantial investments in tangible and intangible long-lived assets, primarily the Company's communications network, the Company's license and spectrum. Changes in technology or changes in the Company's intended use of these assets can cause the estimated period of use or the value of these assets to change. See note 2(h) in respect of accounting policy regarding impairments. The Company reviews the communications network, license and spectrum for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If necessary, the Company writes down the assets to their estimated fair values. No write-downs of the Company's long-lived assets have been recorded since incorporation. The Company adopted an exemption provided in IFRS1, allowing to measure the Company's property and equipment as of the transition date to IFRS at fair value, and to use this value as its deemed cost of that date. See also note 2(e).

**Allowance for Doubtful Accounts:**

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

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 5 – INVENTORIES:**

	New Israeli shekels		September 30, 2009  (Unaudited)	September 30, 2008  (Unaudited)	September 30, 2009  (Unaudited)	Convenience translation into U.S. dollars  (note 2a)
	September 30, 2009	December 31, 2008				In millions
Handsets	99	82				26
Accessories and other	20	16				5
Spare parts	22	22				6
Smart boxes, ISP modems and related equipment	6	5				2
	<u>147</u>	<u>125</u>				<u>39</u>

**NOTE 6 – PROFIT AND LOSS SUPPLEMENTAL INFORMATION - GROSS PROFIT:**

	New Israeli shekels				Convenience translation into U.S. dollars	
	9 month period ended September 30		3 month period ended September 30		9 month period ended September 30, 2009	3 month period ended September 30, 2009
	2009	2008	2009	2008	(Unaudited)	(Unaudited)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	In millions					
Service revenues	4,047	4,158	1,389	1,452	1,077	370
Equipment revenues	454	591	186	177	121	49
<b>Total revenues</b>	<b>4,501</b>	<b>4,749</b>	<b>1,575</b>	<b>1,629</b>	<b>1,198</b>	<b>419</b>
Cost of sales - Services	2,373	2,245	846	767	631	225
Cost of sales - Equipment	400	663	157	191	107	42
<b>Total Cost of sales</b>	<b>2,773</b>	<b>2,908</b>	<b>1,003</b>	<b>958</b>	<b>738</b>	<b>267</b>

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 7 – SHAREHOLDER'S EQUITY:**

**a. Dividends**

During the nine months ended September 30, 2009, Cash dividends of NIS 4.44 per share, (approximately NIS 683 million (\$182 million)), were declared.

On April 1, 2009, the Company paid a cash dividend in the amount of NIS 1.41 per share, totaling approximately NIS 216 million.

On July 8, 2009, the Company paid a cash dividend in the amount of NIS 1.54 per share, totaling approximately NIS 237 million.

On October 13, 2009, the Company paid a cash dividend in the amount of NIS 1.49 per share, totaling approximately NIS 230 million.

On November 9, 2009, the Company's Board of Directors resolved and recommended the distribution of a cash dividend in the amount of NIS 1.94 per share (approximately NIS 300 million (\$80 million)) to shareholders of record on November 25, 2009.

Cash dividends are paid in Israeli currency.

**b. Share options of the Company**

On February 23, 2009, the 2004 Share Option Plan, was further amended by the Board of Directors (the "Plan Amendments") to include the following two material amendments: (i) with respect to options granted on or after February 23, 2009, the date of approval of the Plan Amendments by the Board of Directors (the "Board Approval"), a dividend-adjustment mechanism, reducing the exercise price of such options following each dividend distribution in the ordinary course in an amount in excess of 40% (forty percent) or of another percent resolved by the Board of Directors, of the Company's net income for the relevant period ("the Excess Dividend") by an amount equal to the gross amount of the Excess Dividend per Ordinary Share. (ii) with respect to all options granted under the 2004 Share Option Plan, a dividend adjustment mechanism reducing the exercise price of such options following each dividend distribution other than in the ordinary course, by an amount which the Board of Directors considers as reflecting the impact such distribution will have or will likely to have on the trading price of the Ordinary Shares, and provisions authorizing the Board of Directors: (i) with respect to options granted on or after February 23, 2009 to allow option holders to exercise their vested options during a fixed period, only through a cashless exercise procedure, pursuant to which each vested option will entitle its holder to the right to purchase Ordinary Shares (subject to the adjustments) and (ii) with respect to options granted under the 2004 Share Option Plan before February 23, 2009 to allow option holders to exercise their vested options during a fixed period also through a cashless exercise procedure. The Plan Amendments were approved by our shareholders, the shareholders of Hutchison Telecommunications International Limited and the shareholders of Hutchison Whampoa Limited respectively.

During 2009 the Board of Directors approved the grant of 4,185,500 options to senior officers and employees. The options are subject to the Plan Amendments with respect to the Dividend Adjustment Mechanism and the Cashless Exercise, as described above.

The exercise price of options granted is equal to the average of the closing sale price of Ordinary Shares during the 30 trading days before the date the allocation is finally approved by the Board of Directors.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 8 – COMMITMENTS, PROVISIONS AND CONTINGENCIES:**

In the ordinary course of business, the Company is involved in a number of lawsuits. The costs that may result from these lawsuits are only accrued for when it is more likely than not that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, and events arising during the course of legal proceedings may require a reassessment of this risk. The Company's assessment of risk is based both on the advice of counsel and on the Company's estimate of the probable settlements amount that are expected to be incurred, if such a settlement will be agreed by both parties.

The litigation and claims that could have a significant effect on the Company's financial position are described below:

- 1) On April 13, 2003, a claim was filed against the Company and other cellular telecommunication companies, together with a request to recognize this claim as a class action, for alleged violation of antitrust law, alleging that no fee should have been collected for incoming SMS messages or alternatively, that the fee collected is excessive and that it is a result of illegal co-operation between the defendants. The amount of the claim against all the defendants is estimated at approximately NIS 120 million (if the court rules that no fee should have been collected) or alternatively NIS 90 million (if the court rules that the fees are excessive).
- 2) On August 8, 2006, a claim was filed against the Company and other cellular telecommunication companies together with a request to recognize this claim as a class action for collecting undue payment from its customers on calls to land line companies when the receiver of the call hangs up first. The amount of the claims against all the defendants is estimated at approximately NIS 100 million for the seven year period leading up to the filing of the claim.
- 3) On February 27, 2007, a claim was filed against the Company and two other cellular telecommunication companies together with a request to recognize this claim as a class action. The claim is for sums that were allegedly overcharged in breach of the Company's licenses, based on intervals larger than the intervals the defendants were allegedly authorized to charge under their licenses, for calls initiated or received by the subscribers while abroad. If the claim is recognized as a class action, the total amount claimed from the defendants is estimated by the plaintiffs to be approximately NIS 449 million, of which, approximately NIS 88 million is attributed to the Company.

On August 20, 2009 the claim was dismissed.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 8 – COMMITMENTS, PROVISIONS AND CONTINGENCIES (continued):**

- 4) On August 9, 2007, a claim was filed against the Company, together with a request to recognize this claim as a class action. The claim is that the Company discontinues providing services to prepaid subscribers that have not used their number for a period of thirteen months and transferred the number to other subscribers. The claimants allege that this violates the terms of the Company's license as well as the requirements against deception and the disclosure requirements in the Consumer Protection Law.

If the claim is recognized as a class action, the total amount claimed from the Company is estimated by the plaintiffs to be approximately NIS 161.7 million.

- 5) On December 16, 2007 a claim and a motion to certify the claim as a class action was filed against the Company and two other cellular communications companies. The plaintiffs allege that cell sites were erected near their properties illegally, causing environmental damage. They seek various remedies, including removal of all alleged illegal devices, and a sum of NIS 1 billion (1,000 NIS per person times 1 million people allegedly effected) that would be given to a fund managed by environment and cellular specialists.
- 6) On November 29, 2007 a petition was filed in the Supreme Court against the Minister of Communications, the Attorney General in the Ministry of Communications and the Chief Executive Officer in the Ministry of Communications, and also against the Company (as well as two other cellular communications companies) as formal respondents.

The petition deals with the decision of the Minister of Communications according to which cellular companies are not allowed to market programs that include limitation to 1 minute minimum (programs that charge the subscriber for the whole first minute even if he used only a part of it).

The petitioner's motion is to implement the above mentioned decision retroactively and alternatively to instruct the cellular companies to forfeit the fines they collect from customers who wish to leave these programs.

At this stage the court has yet to order the cellular companies to respond to the petition.

- 7) On March 23, 2008, a claim and a motion to certify the claim as a class action were filed against the Company. The claim is that the Company overcharges subscribers for calls and that the subscribers' bill includes incorrect and unclear information. The total amount to be claimed under the class action is not estimated by the plaintiff.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 8 – COMMITMENTS, PROVISIONS AND CONTINGENCIES (continued):**

- 8) On June 26, 2008, a claim and a motion to certify the claim as a class action were filed against the Company. The claim is that the Company is charging consumers for providing special numbers, allegedly in breach of the Company's license. If the claim is recognized as a class action, the total amount claimed from the defendants is estimated by the plaintiffs to be approximately NIS 90 million. During a preliminary hearing that took place on June 22, 2009, the court asked the plaintiff to consider the continuation of his legal procedure. On September 6, 2009, the court set up dates for the filing of summations by the parties.
- 9) On January 19, 2009, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company misled its customers who purchased a particular model of handset by not highlighting the fact that there were faults with certain of that model's functions and not offering replacement models free of additional obligation. If the claim is recognized as a class action, the total amount claimed from the Company is estimated by the plaintiffs to be approximately NIS 70 million.
- 10) On March 18, 2009, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company should not have charged its subscribers for various different services under certain circumstances. If the claim is recognized as a class action, the total amount claimed from the Company is estimated by the plaintiffs to be approximately NIS 1,250 million.

On August 17, 2009 the claim was dismissed.

- 11) On April 22, 2009, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company charges certain subscribers for certain calls not according to their rate plan. If the claim is recognized as a class action, the total amount claimed from the Company is estimated by the plaintiffs to be approximately NIS 187 million.
- 12) On August 17, 2009, a claim and a motion to certify the claim as a class action were filed against the Company, another cellular operator and two content providers and integrators. The claim alleges that Partner charged subscribers for certain content services, without their consent. If the claim is recognized as a class action, the total amount claimed from the Company is estimated by the plaintiff to be approximately NIS 228 million.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 8 – COMMITMENTS, PROVISIONS AND CONTINGENCIES (continued):**

- 13) On August 24, 2009, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that Partner misled its subscribers by wrongfully not disclosing material terms of sale in a certain marketing campaign that it carried out.. If the claim is recognized as a class action, the total amount claimed from the Company is estimated by the plaintiffs to be approximately NIS 982 million.
- 14) Additional claims were filed against the Company, together with a request to recognize these claims as class actions. The total amount of the claims against the Company is estimated at approximately NIS 247 million. One of the claims was recognized as a class action and the Company recognized a provision in the amount estimated to be sufficient to cover the liability.
- 15) On May 20, 2008, the Ministry of Communications (MOC) informed the Company that following an audit of the MOC by the State Comptroller they are reconsidering the Company's continued use of one of the frequency bands which the Company is using on a shared basis with another operator and claiming payment for its past use (which according to the MOC's claim is approximately NIS 42.5 million).  
The Company estimates, in light of the recent discussions that have been held regarding this subject that some of its relevant arguments will be accepted and some will be rejected, so that the sum the MOC will impose on the Company, for the use of the frequency band until now will be between NIS 20-30 million.  
The Company recognized a provision in the amount of NIS 26 million estimated to be sufficient to cover the probable liability.
- 16) 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.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 8 – COMMITMENTS, PROVISIONS AND CONTINGENCIES (continued):**

- 17) Between January 3, 2006 and September 30, 2009 the Company provided the local authorities with 328 indemnification letters as a pre-condition for obtaining building permits. Due to the fact that an enactment of law regarding this matter is not yet in place, at this stage the extent of the Company's exposure from granting such indemnification letters cannot be evaluated.

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

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

- 18) The Company is a party to various claims arising in the ordinary course of its operations. Management, based upon the opinion of its legal counsel, is of the opinion that the ultimate resolution of these claims will not have a material effect on the financial position of the Company, its result of operations and cash flows. The accounts do not include a provision in respect thereof.

**NOTE 9 – RELATED PARTIES TRANSACTIONS:**

During the nine months ended 30 September 2009, sales of NIS 2 million, NIS 16 million were made to Hutchison Telecommunications Cayman and Hutchison Telephone Company, respectively. The transactions are carried out in the ordinary course of business. Management believes that such transactions were carried out under normal market conditions.

Key management compensation amounted NIS 59 million for the nine months ended September 30, 2009.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)****NOTE 10 – EFFECT OF TRANSITION TO IFRS:**

As stated in note 2(a), this interim condensed financial information was prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IFRS).

The accounting policies in note 2 have been applied in preparing the interim condensed consolidated financial information for the nine and three months ended September 30, 2009, the comparative information for the financial statements for the year ended December 31, 2008, and for the nine and three months ended September 30, 2008 and the preparation of an opening IFRS statement of financial position at January 1, 2008 (the Company's date of transition).

An explanation of how the transition from US GAAP to IFRSs has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

**Exemptions from full retrospective application elected by the Company:****1. Fair value as deemed cost exemption**

The Company has elected to measure property and equipment at fair value as at 1 January 2008. See A Below.

**2. Business combinations exemption**

The Company has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2008 transition date.

The following adjustments relate to the effect of the transition to reporting under IFRS, as issued by the International Accounting Standards Board, as do the explanations with respect to these adjustments and with respect to the exemptions that the Company has elected to apply upon the transition to the IFRS reporting regime. The adjustments are presented as follows:

- a. Adjustments to the consolidated statements of financial position as of January 1, 2008 ("the opening balance sheet"), and December 31, 2008.
- b. Adjustments to the consolidated statements of income for the periods of nine and three months ended September 30, 2008 and the year ended December 31, 2008.
- c. Adjustments to certain equity items as of January 1, 2008, September 30, 2008, and December 31, 2008.
- d. The provision of explanations with respect to the above adjustments, together with a description of the exemptions adopted by the Company under IFRS 1 during the course of the transition to the IFRS regime.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

**NOTE 10 - EFFECT OF TRANSITION TO IFRS (continued):**

**Consolidated statement of financial position:**

	Note	As of January 1, 2008		
		Reported under US GAAP	Effect of transition to IFRS	IFRS
		(Audited)*	(Unaudited)	
New Israeli shekels in millions				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		148		148
Trade receivables		1,121		1,121
Other receivables	F	73	(29)	44
Inventories		133		133
Derivative financial instruments	F		27	27
Deferred income taxes	G	46	(46)	
		<u>1,521</u>	<u>(48)</u>	<u>1,473</u>
<b>NON CURRENT ASSETS</b>				
Trade Receivables		446		446
Funds in respect of employee rights upon retirement	C	89	(89)	
Property and equipment	A,I	1,728	(38)	1,690
Licenses and other intangible assets	B,D,I,J	1,154	233	1,387
Deferred income taxes	G	94	(9)	85
		<u>3,511</u>	<u>97</u>	<u>3,608</u>
<b>TOTAL ASSETS</b>		<u>5,032</u>	<u>49</u>	<u>5,081</u>

\* Extracted from the Company's audited US GAAP financial statements.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**Consolidated statement of financial position:**

	Note	As of January 1, 2008			
		Reported under US GAAP	Effect of transition to IFRS	IFRS	
		(Audited)*	(Unaudited)		
				New Israeli shekels in millions	
<b>CURRENT LIABILITIES</b>					
Current maturities of long term liabilities and short term loans		28		28	
Trade payables		750		750	
Parent group - trade		3		3	
Other liabilities	F, H	376	(67)	309	
Derivative financial instruments	F		19	19	
Income tax payable	H		48	48	
		<u>1,157</u>		<u>1,157</u>	
<b>NON CURRENT LIABILITIES</b>					
Notes payable	J	2,073	(17)	2,056	
Liability for employee rights upon retirement	C	132	(101)	31	
Asset retirement obligation	E		19	19	
Other liabilities	E	14	(11)	3	
		<u>2,219</u>	<u>(110)</u>	<u>2,109</u>	
<b>TOTAL LIABILITIES</b>		<u>3,376</u>	<u>(110)</u>	<u>3,266</u>	
<b>EQUITY</b>					
Share capital		2		2	
Capital surplus	B, K	2,545	(116)	2,429	
Accumulated deficit		(891)	275	(616)	
<b>Total Equity</b>		<u>1,656</u>	<u>159</u>	<u>1,815</u>	
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>5,032</u>	<u>49</u>	<u>5,081</u>	

\* Extracted from the Company's audited US GAAP financial statements.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**Consolidated statement of financial position:**

	Note	As of December 31, 2008		
		Reported under US GAAP (Audited)*	Effect of transition to IFRS (Unaudited)	IFRS
		New Israeli shekels in millions		
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		184		184
Trade receivables		1,103		1,103
Other receivables	F	60	(28)	32
Inventories		125		125
Derivative financial instruments	F		27	27
Deferred income taxes	G	70	(70)	
		<u>1,542</u>	<u>(71)</u>	<u>1,471</u>
<b>NON CURRENT ASSETS</b>				
Trade Receivables		417		417
Funds in respect of employee rights upon retirement	C	82	(82)	
Property and equipment	A, E, I	1,756	179	1,935
Licenses and other intangible assets	B, D, I, J	1,061	200	1,261
Deferred income taxes	G	110	(29)	81
		<u>3,426</u>	<u>268</u>	<u>3,694</u>
<b>TOTAL ASSETS</b>		<b><u>4,968</u></b>	<b><u>197</u></b>	<b><u>5,165</u></b>

\* Extracted from the Company's audited US GAAP financial statements.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**Consolidated statement of financial position:**

	Note	As of December 31, 2008			
		Reported under US GAAP	Effect of transition to IFRS	IFRS	
		(Audited)*	(Unaudited)		
				New Israeli shekels in millions	
<b>CURRENT LIABILITIES</b>					
Current maturities of long term liabilities and short term loans		567		567	
Trade payables		820		820	
Parent group - trade		4		4	
Other liabilities	F, H	343	(49)	294	
Derivative financial instruments	F		7	7	
Income tax payable	H		42	42	
		<u>1,734</u>		<u>1,734</u>	
<b>NON CURRENT LIABILITIES</b>					
Notes payable	J	1,625	(12)	1,613	
Liability for employee rights upon retirement	C	148	(94)	54	
Asset retirement obligation	E		23	23	
Other liabilities	E	22	(12)	10	
		<u>1,795</u>	<u>(95)</u>	<u>1,700</u>	
<b>TOTAL LIABILITIES</b>		<u>3,529</u>	<u>(95)</u>	<u>3,434</u>	
<b>EQUITY</b>					
Share capital		2		2	
Capital surplus	B, K	2,570	(124)	2,446	
Accumulated deficit		(782)	416	(366)	
Treasury shares		(351)		(351)	
<b>Total Equity</b>		<u>1,439</u>	<u>292</u>	<u>1,731</u>	
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>4,968</u>	<u>197</u>	<u>5,165</u>	

\* Extracted from the Company's audited US GAAP financial statements.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**Consolidated statement of income:**

	Note	Year ended December 31, 2008		
		Reported under US GAAP (Audited)*	Effect of transition to IFRS (Unaudited)	IFRS
		New Israeli shekels		
		In millions, except per share data		
<b>Revenues</b>		6,302		6,302
Cost of revenues	A, B, C	4,052	(184)	3,868
<b>Gross Profit</b>		2,250	184	2,434
Selling and marketing expenses	C	389	(1)	388
General and administrative expenses	L, C	256	28	284
Other income	L	64	64	64
<b>Operating profit</b>		<u>1,605</u>	<u>221</u>	<u>1,826</u>
Finance income			37	37
Finance expenses			221	221
Financing costs, net	C, E, F, L	158	(158)	158
<b>Profit before income tax</b>		<u>1,447</u>	<u>195</u>	<u>1,642</u>
Income tax expense	A, B, C, E, F	396	48	444
<b>Profit for the period</b>		<u>1,051</u>	<u>147</u>	<u>1,198</u>
<b>Earnings per share</b>				
Basic		6.77	0.94	7.71
Diluted		<u>6.73</u>	<u>0.92</u>	<u>7.65</u>
<b>Weighted average number of shares outstanding</b>				
Basic		155,350		155,350
Diluted		<u>156,348</u>	<u>172</u>	<u>156,520</u>

\* Extracted from the Company's audited US GAAP financial statements.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**Consolidated interim statement of income:**

		Nine months ended September 30, 2008		
		Reported under US GAAP	Effect of transition to IFRS (Unaudited)	IFRS
		New Israeli shekels		
		In millions, except per share data		
Revenues		4,749		4,749
Cost of revenues	A, B, C	3,071	(163)	2,908
<b>Gross Profit</b>		<b>1,678</b>	<b>163</b>	<b>1,841</b>
Selling and marketing expenses		301	(3)	298
General and administrative expenses	L	181	20	201
Other income	L		51	51
<b>Operating profit</b>		<b>1,196</b>	<b>197</b>	<b>1,393</b>
Finance income			43	43
Finance expenses			190	190
Finance costs, net	C, F, L	112	(112)	
<b>Profit before income tax</b>		<b>1,084</b>	<b>162</b>	<b>1,246</b>
Income tax expense	A, C	297	41	338
<b>Profit for the period</b>		<b>787</b>	<b>121</b>	<b>908</b>
<b>Earnings per share</b>				
Basic		5.04	0.78	5.82
Diluted		5.01	0.76	5.77
<b>Weighted average number of shares outstanding (in thousands)</b>				
Basic		156,011		156,011
Diluted		157,096	179	157,275

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**Consolidated interim statement of income:**

		Three months ended September 30, 2008		
		Reported under US GAAP	Effect of transition to IFRS (Unaudited)	IFRS
		New Israeli shekels		
		In millions, except per share data		
Revenues		1,629		1,629
Cost of revenues	A, B, C	1,001	(43)	958
<b>Gross Profit</b>		<b>628</b>	<b>43</b>	<b>671</b>
Selling and marketing expenses		97	(3)	94
General and administrative expenses	L	62	7	69
Other income	L		14	14
<b>Operating profit</b>		<b>469</b>	<b>53</b>	<b>522</b>
Finance income			4	4
Finance expenses			75	75
Finance costs, net	C, L	64	(64)	
<b>Profit before income tax</b>		<b>405</b>	<b>46</b>	<b>451</b>
Income tax expense	A, C	109	12	121
<b>Profit for the period</b>		<b>296</b>	<b>34</b>	<b>330</b>
<b>Earnings per share</b>				
Basic		1.92	0.22	2.14
Diluted		1.91	0.21	2.12
<b>Weighted average number of shares outstanding (in thousands)</b>				
Basic		154,383		154,383
Diluted		155,356	176	155,532

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**Consolidated reconciliation of equity:**

<b>NIS in millions</b>					
	<b>Note</b>	<b>Share capital</b>	<b>Capital surplus</b>	<b>Accumulated deficit</b>	<b>Treasury shares</b>
<b>As of January 1, 2008</b>					
<b>Reported under US GAAP (Audited)</b>		2	2,545	(891)	1,656
<b>Effect of adjustments, net of tax for:</b>					
Options to employees	K		(251)	251	
CPI adjustment - equity	B		135	(135)	
Property and equipment	A			84	84
CPI adjustment- licenses	B			41	41
Software adjustment	B			32	32
Liability for employee rights upon retirement	C			9	9
Derivative financial instruments	F			(1)	(1)
Asset retirement obligation	E			(6)	(6)
<b>As of January 1, 2008 under IFRS (Unaudited)</b>		<u>2</u>	<u>2,429</u>	<u>(616)</u>	<u>1,815</u>
<b>As of December 31, 2008 Reported under US GAAP (Audited)</b>		2	2,570	(782)	(351)
<b>Effect of adjustments, net of tax for:</b>					
Options to employees	K		(259)	259	
CPI adjustment - equity	B		135	(135)	
Property and equipment	A			222	222
CPI adjustment- licenses	B			38	38
Software adjustment	B			30	30
Liability for employee rights upon retirement	C			9	9
Derivatives	F			(1)	(1)
Asset retirement obligation	E			(6)	(6)
<b>As of December 31, 2008 under IFRS (Unaudited)</b>		<u>2</u>	<u>2,446</u>	<u>(366)</u>	<u>(351)</u>
<b>As of September 30, 2008 Reported under US GAAP(Unaudited)</b>		2	2,566	(810)	(351)
<b>Effect of adjustments, net for:</b>					
Options to employees	K		(257)	257	
CPI adjustment - equity	B		135	(135)	
Property and equipment	A			200	200
CPI adjustment- licenses	B			39	39
Software adjustment	B			31	31
Liability for employee rights upon retirement	C			16	16
Derivatives	F			(1)	(1)
Asset retirement obligation	E			(6)	(6)
<b>As of September 30, 2008 under IFRS (Unaudited)</b>		<u>2</u>	<u>2,444</u>	<u>(409)</u>	<u>(351)</u>

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**A. Property and equipment**

At the transition date, the Company chose to state the property and equipment at their fair value and to determine that value as deemed cost, in accordance with the exemption of IFRS 1, see also note 2(e). As part of the deemed cost, the company made an estimation of the remaining useful life of each significant component of property and equipment. Depreciation is calculated using the straight line method for each individual significant component of an item of property and equipment. See also changes in property and equipment in respect of asset retirement obligation in E below.

As a result, the property and equipment balances increased by NIS 114 million, NIS 269 million and NIS 298 million as at January 1, 2008, September 30, 2008 and December 31, 2008, respectively, while the deferred tax balances deriving from the differences in the measurement of the property and equipment for tax purposes decreased compared with the presentation of property and equipment for accounting purposes, by approximately NIS 30 million, NIS 68 million and NIS 76 million at January 1, 2008, September 30, 2008 and December 31, 2008 respectively. The Accumulated deficit has decreased on those dates by the respective net amounts.

The deemed cost evaluation included lengthening of the estimated useful lives of the property and equipment as follows:

	<b>Before evaluation</b>	<b>After evaluation</b>
	years	
<b>Communications network:</b>		
Physical layer and infrastructure	5-10	10-25
Other Communication network	5-10	3-15
Computers, hardware and software for information systems	3-7	3-10
Office furniture and equipment	7-15	7-10
Optic fibers and related assets	10-15	7-25

As a result, the depreciation expenses for the year 2008 and for the nine and three months ended September 30, 2008 has decreased by NIS 188 million, and NIS 157 million, and NIS 39 million respectively. As a result the income tax increased by NIS 46 million, NIS 39 million, and NIS 10 million for the year 2008, and for the nine and three months ended September 30, 2008, respectively.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**B. Inflation Adjustment**

The value of non monetary assets and equity items that were measured on the basis of historical cost under US GAAP, have been adjusted for changes in the general purchasing power of the Israeli currency - NIS, based upon changes in the Israeli Consumer Price Index ("CPI") until December 31, 2003; as until that date the Israeli economy was considered hyperinflationary according to IFRS, as a result:

1. **Capital Surplus** increased by NIS 135 million, at January 1, 2008, September 30, 2008 and December 31, 2008.
2. **License intangible asset** increased by NIS 55 million, NIS 52 million and NIS 51 million at January 1, 2008, September 30, 2008 and December 31, 2008, respectively, while the deferred tax balances deriving from the differences in its measurement tax purposes decreased, by approximately NIS 14 million, NIS 13 million and NIS 13 million at January 1, 2008, September 30, 2008 and December 31, 2008 respectively. As a result, the cost of sales increased for the year ended December 31, 2008 and the nine and three months ended September 30, 2008 by NIS 4 million, NIS 3 million, and NIS 1 million, respectively; while the income tax expense for the year ended December 31, 2008 and the nine months ended September 30, 2008 decreased by NIS 1 million.
3. **Software intangible asset** increased by NIS 43 million, NIS 41 million and NIS 38 million at January 1, 2008, September 30, 2008 and December 31, 2008, while the deferred tax balances deriving from the differences in its measurement tax purposes decreased, by approximately NIS 11 million, NIS 10 million and NIS 10 million at January 1, 2008, September 30, 2008 and December 31, 2008 respectively. As a result, the cost of sales increased for the year ended December 31, 2008 and the nine and three months ended September 30, 2008 by NIS 4 million, NIS 2 million, NIS 2 million, respectively; while the income tax expense for the year ended December 31, 2008 decreased by NIS 1 million.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**C. Liability for employee rights upon retirement, net**

Under US GAAP, the Liability for severance pays for employees' rights upon retirement was measured by multiplying the years of tenure by the last monthly salary of the employee (i.e. one monthly salary for each year of tenure) at each balance sheet date, and the amount funded for severance pay that has been accumulated for this liability is measured based on redemption values at each balance sheet date. In addition, under US GAAP, amounts funded with severance pay funds were presented as long term investments. Under IFRS, the liability for employee rights upon retirement is computed under the provisions of IAS 19 *Employee benefits* (hereafter – IAS 19). Under the provisions of IAS 19, the severance pay plan of the Company considered "defined benefit plan" as detailed in IAS 19. Hence, the liability for employee rights upon retirement that arise from the plan is measured on an actuarial basis, and takes into account, among other things, future salary rises and turnover.

The actuarial calculations were performed by an external expert.

In addition, the amount funded is measured at its fair value. The said amounts funded comprise "plan assets" as defined in IAS 19, and hence, were set off from the liability for employee rights upon retirement for the purpose of statement of financial position presentation.

As a result, the liability for employee rights upon retirement, before deduction the fair value of plan assets, decreased as of January 1, 2008, September 30, 2008 and December 31, 2008 by NIS 13 million, NIS 21 million and NIS 12 million, respectively, while the deferred tax balances decreased by approximately NIS 3 million, NIS 5 million and NIS 3 million at January 1, 2008, September 30, 2008 and December 31, 2008 respectively.

As a result Funds in respect of employee rights upon retirement in amounts of NIS 89 million and NIS 82 million were setoff against the liability for employee's rights upon retirement as of January 1, 2008, and December 31, 2008 respectively.

The Company elected as its accounting policy to recognize actuarial gains (loss) arising from the valuation of the plan, according to IAS 19, on a current basis to other comprehensive income.

Actuarial losses in the amounts of NIS 2 million, and NIS 13 million, net of tax, for the periods of nine months ending September 30, 2008, and for the year ended December 31, 2008, respectively were charged to other comprehensive income.

Finance income (expenses) in the amounts of NIS (3) million, NIS (1) million, and NIS 11 million for the nine and three months ended September 30, 2008 and the year ended December 31, 2008, respectively, were charged to statements of income. Cost of sales decreased for the year ended December 31, 2008 and the nine and three months ended September 30, 2008 by NIS 4 million, NIS 9 million, and NIS 6 million respectively. The income tax expense for the year ended December 31, 2008 and the nine and three months ended September 30, 2008 increased by NIS 4 million, NIS 3 million, and NIS 2 million, respectively.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**D. Licenses and other intangible assets**

1. The values of the Licenses and other intangible assets have been adjusted for changes in the general purchasing power of the Israeli currency, see B above.
2. Under US GAAP costs to acquire and to retain telecommunication customers are expensed in the period incurred.

Under IFRS costs to acquire or retain postpaid mobile telecommunication customers, pursuant to a contract with early termination penalties are in some cases capitalized if (1) such costs are identifiable and controlled; (2) it is probable that future economic benefits will flow from the customers to the Company; and (3) such costs can be measured reliably. Subsidies on handsets sales, which are calculated by deducting the customer's payment toward the handset from the cost of the handset, and sales commissions, are included in the customer acquisition and retention costs. Capitalized customer acquisition and retention costs are amortized over their expected useful life which is not longer than their minimum enforceable period, which is generally a period of 18 months, using the straight-line method. In the event that a customer churns off the network within the period, any unamortized customer acquisition or retention costs are written off in the period in which the customer churns.

Accordingly, when handsets are sold to end customers for purpose of acquiring new customers or retaining existing customers, the Company subsidizes the sale of the handset by selling it at a price below its cost to secure a fixed-term service contract. The handset sale is then treated as a non-revenue-generating transaction and accordingly, no revenue is recognized from these types of handset sales. As of 2009, the said costs fulfill the above mentioned conditions and therefore the subsidy, which represents the difference between the cost of the handset and the payment received from the customer for the handset, is capitalized as an element of customer acquisition and retention costs and included in intangible assets.

Costs to acquire pre-paid telecommunication customers are expensed in the period incurred

**E. Asset Retirement Obligation**

The Company recognizes a liability in respect of asset retirement obligation (ARO) associated with the retirement of a tangible long lived asset in the period in which it is incurred and becomes determinable, with an offsetting increase in the carrying amount of the associated asset. The cost of the tangible asset, including the initially recognized ARO, is depreciated such that the cost of the ARO is recognized over the useful life of the asset. Under US GAAP, the interest rate used for measuring changes in the liability would be the credit-adjusted, risk-free rate that existed when the liability, or portion thereof, was initially measured. Under IFRS, the Company uses a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability in accordance with IAS 37. The application of the exemption of deemed-cost for property and equipment described in note A above resulted that property and equipment were revalued to their fair values at the transition date.

As a result, the provision for asset retirement obligation increased by NIS 8 million, NIS 8 million and NIS 10 million as of January 1, 2008, September 30, 2008 and December 31, 2008, respectively; while the deferred tax balances increased by NIS 2 million, as of January 1, 2008, September 30, 2008 and December 31, 2008.

Property and equipment increased during the year ended December 31, 2008 by NIS 3 million. Finance costs for the year ended December 31, 2008 and during the nine months ended September 30, 2008 increased by NIS 1 million.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

Under US GAAP the provisions were presented as part of other liabilities. Under IFRS the provisions are presented separately on the statement of financial position. As a result, amounts in respect of asset retirement obligation of NIS 19 million and NIS 23 million as of January 1, 2008 and December 31, 2008 respectively, were presented separately.

**F. Derivative financial instruments**

US GAAP does not require bifurcation of a foreign currency embedded derivative if payment is denominated in the local currency of a substantial party to the contract. Under IFRS, bifurcation is not required also if payments are denominated in any currency that is commonly used to purchase or sell such items in the economic environment in which the transaction takes place. Until December 31, 2006, Israel was considered economy which the USD is "commonly used". Accordingly there are some transaction in which foreign currency embedded derivative was bifurcated under US GAAP but not under IFRS.

The effect of applying IFRS as of January 1, 2008, September 30, 2008 and as of December 31, 2008, includes a decrease in current derivative financial assets in the amount of NIS 1 million, NIS 2 million, and NIS 1 million, respectively with corresponding amount (net of tax) to accumulated deficit. As a result, the finance expenses for the year ended December 31, 2008 and the nine months ended September 30, 2008 increased by NIS 1 million, and NIS 2 million, respectively.

Under US GAAP derivative financial instruments were presented in the statement of financial position within other receivables and other liabilities. Under IFRS, the derivatives are financial instruments that are measured at fair value through profit and loss and therefore are presented separately on the statement of financial position. As a result, derivative financial assets in the amounts of NIS 27 million as at January 1, 2008, and December 31, 2008, were presented separately; and derivative financial liabilities in the amounts of NIS 19 million, and NIS 7 million as at January 1, 2008, and December 31, 2008, respectively were presented separately.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**G. Deferred Taxes**

In accordance with US GAAP, deferred taxes were classified as current assets or current liabilities and noncurrent assets or non-current liabilities according to the classification of the assets or liabilities for which they were related. In accordance with IFRS, deferred tax assets are classified as non-current assets or non-current liabilities even if it is anticipated that they will be realized in the short term. As a result, short-term deferred tax assets as at January 1, 2008, and December 31, 2008 in the amount of NIS 46 million, and NIS 70 million, respectively, were reclassified from current assets to non-current assets.

The deferred tax asset as presented hereunder has changed based on the aforementioned changes. The changes in the deferred taxes were calculated on the basis of tax rates that are expected to be in effect when the temporary differences reverse:

Note		<b>January 1, 2008</b>	<b>December 31, 2008</b>
		<b>NIS in millions</b>	
Deferred Taxes according to US GAAP (Audited)		140	180
Property and equipment	A	(30)	(76)
CPI adjustment- licenses	B	(14)	(13)
Software adjustment	B	(11)	(10)
Liability for employee rights upon retirement	C	(3)	(3)
Derivative financial instruments	F	1	1
Asset retirement obligation	E	2	2
Deferred taxes according to IFRS (Unaudited)		<u>85</u>	<u>81</u>

**Hereafter additional differences between US GAAP and IFRS which relate to presentation:**

**H. Income tax payable**

Under US GAAP the income taxes payable has been presented under "other accounts payable". Pursuant to the provisions of IAS 1R - *Presentation of Financial Statements*, income taxes payable are presented separately on the statement of financial position. As a result, income tax payable in the amounts of NIS 48 million, and NIS 42 million as at January 1, 2008, and December 31, 2008 were presented separately.

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**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)**

**NOTE 10 – EFFECT OF TRANSITION TO IFRS (continued):**

**I. Classification of Computer Software**

Under US GAAP computer software is classified within property and equipment. Under IFRS, computer software and capitalised software development costs which are not an integral part of the hardware attributed to them, are treated as intangible assets. As a result, the carrying balances at January 1, 2008, and December 31, 2008, of NIS 153 million, and NIS 122 million respectively, relating to computer software and to capitalised software development costs, were reclassified from the property, plant and equipment item to the intangible assets item.

**J. Classification of Issuance costs relating to Notes payable**

Under US GAAP Issuance costs relating to Notes payable were recognized as deferred charges. Under IFRS notes payable are presented net of the issuance costs. The balances reclassified in the statements of financial position as of January 1, 2008, and December 31, 2008 are NIS 17 million, and NIS 11 million respectively.

**K. Share based compensation expenses**

Under US GAAP, Share based compensation expenses were charged to profit and loss through corresponding increase to capital reserve. In accordance with IFRS, and on the basis of the accounting policy applied by the Company, the Company has reclassified this capital reserve to the accumulated deficit. As a result, the balance of the capital reserve decreased as of January 1, 2008, September 30, 2008, and December 31, 2008 and in the amount of NIS 251 million, NIS 257 million and NIS 260 million respectively, with against accumulated deficit.

**L. Classification of Finance income and expenses**

Under US GAAP, financial income and expenses included interest and exchange differences, and fair value gains and losses on derivative financial instruments were also presented in finance income or loss, at their net value, below the "operating income" line item. Under IFRS, the Company presents interest income on long term receivables as part of normal operations in its statement of income under "other income" above "operating income" line item. Financial income and expenses are presented in two different line items – finance income and expenses, below the "operating income" line item.

As a result, finance income from sale of handsets in installments was reclassified from finance income to other income in the amounts of NIS 51 million, NIS 14 million, and NIS 64 million for the nine and three months ended September 30, 2008 and for the year ended December 31, 2008. Credit card commission expenses were reclassified from finance expenses to general and administrative expenses in the amounts of NIS 21 million, NIS 7 million, and NIS 29 million for the nine and three months ended September 30, 2008 and for the year ended December 31, 2008.

According to US GAAP, financial income and expenses are presented net in the income statement. According to IFRS, financial income is disclosed separately from financial expenses in the income statement and accordingly, the Company separately presented financial expenses and income.