
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

ANNUAL REPORT

FILED PURSUANT TO SECTION 12, 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934



As filed with the Securities and Exchange Commission on March 14, 2016

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

FORM 20-F

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

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number 1-14968

PARTNER COMMUNICATIONS COMPANY LTD.

(Exact Name of Registrant as Specified in its Charter)

ISRAEL

(Jurisdiction of Incorporation or Organization)

8 AMAL STREET
AFEQ INDUSTRIAL PARK
ROSH-HA'AYIN 48103

ISRAEL

(Address of Principal Executive Offices)

Nomi Sandhaus
ExecutiveOffices@partner.co.il

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

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

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

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

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

NONE

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

NONE

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

ORDINARY SHARES OF NIS 0.01 EACH 156,087,456

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

YES ☐ NO ☒

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

YES ☐ NO ☒

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

YES ☒ NO ☐

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

YES ☒ NO ☐

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

Large Accelerated Filer ☐

Accelerated Filer ☒

Non-Accelerated Filer ☐

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

U.S. GAAP ☐

International Financial Reporting Standards as issued by the International Accounting Standards Board ☒

Other ☐

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

ITEM 17 ☐ ITEM 18 ☐

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

YES ☐ NO ☒

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INTRODUCTION

As used herein, references to “we,” “our,” “us,” the “Group,” “Partner” or the “Company” are references to Partner Communications Company Ltd. and its wholly-owned subsidiaries, Partner Future Communications 2000 Ltd., Partner Land-Line Communications Solutions LP, Partner Business Communications Solutions LLP (of which Partner Future Communications 2000 Ltd. serves as the general partner and the Company serves as the limited partner), and, as of March 3, 2011 (the date of acquisition), 012 Smile Telecom Ltd. (“012 Smile”), except as the context otherwise requires. In addition, references to our “financial statements” are to our consolidated financial statements, unless the context requires otherwise.

The Company currently provides telecommunications services in the following two segments: (1) cellular telecommunications services (“Cellular Services”) and (2) fixed-line communication services (“Fixed-Line Services”), which include: (a) Internet services (“ISP”) that provide access to the internet as well as home Wi-Fi networks, including Value Added Services (“VAS”) such as anti-virus and anti-spam filtering; and fixed-line voice communication services provided through Voice Over Broadband (“VOB”); (b) Transmission services and Primary Rate Interface (“PRI”); (c) International Long Distance services (“ILD”); outgoing and incoming international telephony, hubbing, roaming and signaling and calling card services. The cellular segment and the fixed-line segment also include operations of equipment selling; mainly handsets, phones, tablets, laptops, modems, data cards, domestic routers, audio-visual devices and related peripherals and equipment. Unless the context indicates otherwise, expressions such as “our business,” “Partner’s business” and “the Company’s business” or “industry” refer to both Cellular and Fixed-Line Services.

In this document, references to “\$,” “US\$,” “US dollars,” “USD” and “dollars” are to United States dollars, and references to “NIS” and “shekels” are to New Israeli Shekels. We maintain our financial books and records in shekels. This annual report contains translations of NIS amounts into US dollars at specified rates solely for the convenience of the reader. No representation is made that the amounts referred to in this annual report as convenience translations could have been or could be converted from NIS into US dollars at these rates, at any particular rate or at all. The translations of NIS amounts into US dollars appearing throughout this annual report have been made at the exchange rate on December 31, 2015, of NIS 3.902 = US\$1.00 as published by the Bank of Israel, unless otherwise specified. See “Item 3A. Key Information – Selected Financial Data – Exchange Rate Data”.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

FORWARD-LOOKING STATEMENTS

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

We have based these forward-looking statements on our current knowledge and our present beliefs and expectations regarding possible future events. These forward-looking statements are subject to risks, uncertainties and assumptions about Partner, consumer habits and preferences in cellular and fixed-line telephone usage, trends in the Israeli telecommunications industry in general, the impact of current global economic conditions and possible regulatory and legal developments. For a description of some of the risks see “Item 3D Risk Factors,” “Item 4 Information On The Company,” “Item 5 Operating And Financial Review And Prospects,” “Item 8A.1 Legal And Administrative Proceedings” and “Item 11 Quantitative And Qualitative Disclosures About Market Risk”. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur, and actual results may differ materially from the results anticipated. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

Our consolidated financial statements for the years ended December 31, 2011, 2012, 2013, 2014 and 2015, have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The tables below at and for the years ended December 31, 2011, 2012, 2013, 2014 and 2015, set forth selected consolidated financial data under IFRS. The selected financial information is derived from our consolidated financial statements, which have been audited by Kesselman & Kesselman, our independent registered public accounting firm in Israel and a member of PricewaterhouseCoopers International Limited. The audited consolidated financial statements at December 31, 2014 and 2015 and for the years ended December 31, 2013, 2014 and 2015, appear at the end of this report.

	Year ended December 31,					
	2011	2012	2013	2014	2015	2015
	New Israeli Shekels in millions (except per share data)					US\$ in millions (1)
Consolidated Statement of Income Data						
Revenues, net	6,998	5,572	4,519	4,400	4,111	1,054
Cost of revenues	4,978	4,031	3,510	3,419	3,472	890
Gross profit	2,020	1,541	1,009	981	639	164
Selling and marketing expenses	711	551	462	438	417	107
General and administrative expenses	291	236	217	193	223	57
Impairment of goodwill	87	-	-	-	-	-
Income with respect to Orange agreement	-	-	-	-	61	16
Other income, net	105	111	79	50	47	12
Operating profit	1,036	865	409	400	107	28
Finance income	33	21	29	3	13	3
Finance expenses	327	255	240	162	156	40
Finance costs, net	294	234	211	159	143	37
Profit (loss) before income tax	742	631	198	241	(36)	(9)
Income tax expenses	299	153	63	79	4	1
Profit (loss) for the year	443	478	135	162	(40)	(10)
Earnings (loss) per ordinary share and per ADS						
Basic:	2.85	3.07	0.87	1.04	(0.26)	(0.06)
Diluted	2.84	3.07	0.86	1.04	(0.26)	(0.06)
Weighted average number of shares outstanding (in thousands)						
Basic:	155,542	155,646	155,687	155,802	156,081	156,081
Diluted (for calculation above):	155,779	155,773	156,199	156,400	156,081	156,081

	Year ended December 31,					
	2011	2012	2013	2014	2015	2015
	New Israeli Shekels in millions (except per share data)					US\$ in millions (1)
Other Financial Data						
Capital expenditures (2)	468	558	413	429	271	69
Adjusted EBITDA (3)	2,178	1,602	1,114	1,096	876	225
Dividend per share (4)	2.25	1.03	—	—	—	—
Statement of Cash Flow Data						
Net cash provided by operating activities	1,570	1,705	1,539	951	922	236
Net cash used in investing activities	(1,085)	(471)	(498)	(431)	(356)	(91)
Net cash used in financing activities	(274)	(1,218)	(1,108)	(338)	(303)	(78)
Balance Sheet Data (at year end)						
Current assets	2,308	2,120	1,703	1,817	2,185	561
Non current assets	4,779	4,297	3,784	3,679	3,341	855
Property and equipment	2,051	1,990	1,791	1,661	1,414	363
License and other intangible assets	1,290	1,217	1,167	1,079	956	245
Goodwill	407	407	407	407	407	104
Deferred income tax asset	30	36	12	14	49	12
Total assets	7,087	6,417	5,487	5,496	5,526	1,416
Current liabilities (5)	1,889	1,525	1,374	1,385	1,765	452
Long-term liabilities (5)	4,773	4,151	3,239	3,072	2,741	702
Total liabilities	6,662	5,676	4,613	4,457	4,506	1,154
Shareholders' equity	425	741	874	1,039	1,020	262
Total liabilities and shareholders' equity	7,087	6,417	5,487	5,496	5,526	1,416

- (1) The NIS figures at December 31, 2015, and for the period then ended have been translated throughout this annual report into dollars using the representative exchange rate of the dollar at December 31, 2015 (USD 1 = NIS 3.902). The translation was made solely for convenience, is supplementary information, and is distinguished from the financial statements. The translated dollar figures should not be construed as a representation that the Israeli currency amounts actually represent, or could be converted into, dollars. See also "Item 3A. Key Information – Selected Financial Data – Exchange Rate Data".
- (2) Capital Expenditures represent additions to property and equipment (see Note 10 to our consolidated financial statements) and intangible assets (see Note 11 to our consolidated financial statements).
- (3) Adjusted EBITDA as reviewed by the Chief Operating Decision Maker ("CODM") represents earnings before interest (finance costs, net), taxes, depreciation, amortization (including amortization of intangible assets, deferred expenses-right of use, and amortization of share based compensation) and impairment charges, as a measure of operating profit. Adjusted EBITDA is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies. Adjusted EBITDA may not be indicative of the Company's historic operating results nor is it meant to be predictive of potential future results. We use the term "Adjusted EBITDA" to highlight the fact that amortization includes amortization of deferred expenses – right of use and employee share-based compensation expenses; it is fully comparable to EBITDA information which has been previously provided for prior periods.
- (4) The dividend per share was calculated in respect of the period for which it was announced. For the years ended December 31, 2013, 2014 and 2015, no dividend was declared by the Company. During 2012, the Company declared a dividend in the amount of approximately NIS 160 million (US\$ 41 million), or NIS 1.03 per share. The aggregate total dividend for 2011 was NIS 350 million or NIS 2.25 per share.
- (5) See Note 15 to the consolidated financial statements for information regarding long-term liabilities and current maturities of long-term borrowings and notes payable.

The tables below at and for the years ended December 31, 2011, 2012, 2013, 2014 and 2015, set forth a reconciliation between operating profit and Adjusted EBITDA.

	Year ended December 31,					US\$ in millions (1)
	2011	2012	2013	2014	2015	
New Israeli Shekels in millions						
Reconciliation Between Operating Profit and Adjusted EBITDA						
Operating profit	1,036	865	409	400	107	28
Depreciation and amortization (including impairment charges)	1,121	726	700	689	753	193
Other (*)	21	11	5	7	16	4
Adjusted EBITDA (2)	2,178	1,602	1,114	1,096	876	225

- (1) The translations of NIS amounts into US dollars appearing throughout this annual report have been made at the exchange rate on December 31, 2015, of NIS 3.902 = US\$1.00 as published by the Bank of Israel, unless otherwise specified. See "Item 3A. Key Information – Selected Financial Data – Exchange Rate Data".
- (2) Adjusted EBITDA as reviewed by the Chief Operating Decision Maker ("CODM") represents earnings before interest (finance costs, net), taxes, depreciation, amortization (including amortization of intangible assets, deferred expenses-right of use, and amortization of share based compensation) and impairment charges, as a measure of operating profit. Adjusted EBITDA is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies. Adjusted EBITDA may not be indicative of the Company's historic operating results nor is it meant to be predictive of potential future results. We use the term "Adjusted EBITDA" to highlight the fact that amortization includes amortization of deferred expenses – right of use and employee share-based compensation expenses; it is fully comparable to EBITDA information which has been previously provided for prior periods
- (*) Mainly amortization of employee share based compensation.

	At December 31,		
	2013	2014	2015
Cellular Industry Data			
Estimated population of Israel (in millions) (1)	8.1	8.3	8.5
Estimated Israeli cellular telephone subscribers (in millions) (2)	10.1	10.3	10.5
Estimated Israeli cellular telephone penetration (3)	125%	124%	124%

	Year ended December 31,				
	2011	2012	2013	2014	2015
Partner Data					
Cellular subscribers (000's) (at period end) (4)	3,176	2,976	2,956	2,837	2,718
Pre-paid cellular subscribers (000's) (at period end) (4)	894	874	823	705	562
Post-paid cellular subscribers (000's) (at period end) (4)	2,282	2,102	2,133	2,132	2,156
Share of total Israeli cellular subscribers (at period end) (5)	32%	29%	29%	28%	27%
Average monthly usage per cellular subscriber ("MOU") (mins.) (6)	397	450	522		
Average monthly revenue per cellular subscriber including roaming ("ARPU") (NIS) (7)	111	97	83	75	69
Churn rate for cellular subscribers (8)	29%	38%	39%	47%	46%
Number of fixed-lines (000's) (9,10) (at period end)	292	288	299		
ISP subscribers (000's)(10) (at period end)	632	587	583		
Estimated cellular coverage of Israeli population (at period end) (11)	99%	99%	99%	99%	99%
Number of employees (full time equivalent) (at period end) (12)	7,891	5,396	4,045	3,575	2,882

(1) The population estimates are as published by the Central Bureau of Statistics in Israel as of December 31, 2015.

(2) We have estimated the total number of Israeli cellular telephone subscribers based on Partner subscriber data as well as information contained in published reports and public statements issued by operators and data regarding the number of subscribers porting between operators.

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

- (4) In accordance with general practice in the cellular telephone industry, we use the term “subscriber”, unless the context otherwise requires, to indicate a telephone or a data or video device, rather than either a bill-paying network customer, who may have a number of telephones connected to the network, or a cellular telephone user who may share a single telephone with a number of other users. “Subscriber” includes our pre-paid customers. A pre-paid subscriber is recognized as such only following the actual use of his pre-paid SIM card and only once they have generated revenues in the amount of at least one shekel (excluding VAT).

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

- (5) Total number of Partner subscribers expressed as a percentage of the estimated total number of Israeli cellular subscribers.
- (6) We have calculated our average monthly usage per cellular subscriber by (i) dividing, for each month in such period, the total number of minutes of usage, excluding in roaming usage, during such month by the average of the number of our subscribers, and (ii) dividing the sum of such results by the number of months in the relevant period. MOU data includes total incoming minutes to subscribers of those MVNO operators which Partner hosts on its network. Since 2014, in view of the continued increase in the proportion of cellular subscribers with bundled packages that include large or unlimited quantities of minutes (with fair use limits), the Company determined that reporting MOU was no longer beneficial to understanding the results of operation, and therefore the Company ceased reporting MOU figures.
- (7) We have calculated our average monthly revenue per cellular subscriber by (i) dividing, for each month in the relevant year, the total cellular segment service revenues during the month by the average number of our cellular subscribers during that month, and (ii) dividing the sum of all such results by the number of months in the relevant period.
- (8) We define the “churn rate” as the total number of cellular subscribers who disconnect from our network, either involuntarily or voluntarily, in a given period expressed as a percentage of the average of the number of our subscribers at the beginning and end of such period. Our churn rate includes subscribers who have not generated revenue for us for a period of the last six consecutive months ending at a reporting date. This includes cellular subscribers who have generated minute revenues only from incoming calls directed to their voice mail. Involuntary churn includes disconnections due to non-payment of bills or suspected fraudulent use, and voluntary churn includes disconnections due to subscribers terminating their use of our services.
- (9) Fixed-lines include Primary Rate Interface (“PRI”) lines, whereby each PRI is considered to include 30 lines according to the number of channels, Session Initiation Protocol (“SIP”) trunks and Voice over Broadband (“VoB”) lines.
- (10) As of the end of 2013, due to market developments, and in particular the increasing prevalence of bundled offerings in the market, the Company determined that the numbers of fixed-line and ISP subscribers no longer provided meaningful insight in the results of operation, and therefore ceased reporting these subscriber figures.
- (11) We measure cellular coverage using computerized models of our network, radio propagation characteristics and topographic information to predict signal levels at two meters above ground level in areas where we operate a network site. According to these coverage results, we estimate the population serviced by our network and divide this by the estimated total population of Israel. Population estimates are published by the Central Bureau of Statistics in Israel.
- (12) A full-time employee is contracted to work a standard 186 hours per month. Part-time employees are converted to full-time equivalents by dividing their contracted hours per month by the full-time standard. The result is added to the number of full-time employees to determine the number of employees on a full-time equivalent basis.

Exchange Rate Data

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

	Year ended December 31,				
	2011	2012	2013	2014	2015
Average (1)	3.579	3.858	3.609	3.577	3.884
High	3.821	4.084	3.791	3.994	4.053
Low	3.363	3.700	3.471	3.402	3.761
End of period	3.821	3.733	3.471	3.889	3.902

(1) Calculated based on the average of the daily exchange rates during the relevant period.

	September 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016 (through March 7)
High	3.949	3.923	3.921	3.905	3.983	3.964	3.912
Low	3.863	3.816	3.868	3.855	3.913	3.871	3.886

On December 31, 2015, the exchange rate was NIS 3.902 per US\$1.00 as published by the Bank of Israel. Changes in the exchange rate between the shekel and the US dollar could materially affect our financial results.

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

You should carefully consider the risks described below and the other information in this annual report. Depending on the extent to which any of the following risks materializes, our business, financial condition, cash flow or results of operations could suffer, and the market price of our shares may be negatively affected. The risks below are not the only ones we face, and other risks currently not affecting our business or industry, or which are currently deemed insignificant, may arise.

3D.1 RISKS RELATING TO THE REGULATION OF OUR INDUSTRY

We operate in a highly regulated telecommunications market in which the regulator imposes substantial limitations on our flexibility in managing our business and seeks to increase industry competition. At the same time, the regulator limits our ability to compete by, among other measures, giving preference to new competitors, and limits our ability to expand our business and develop our network. These measures may continue to increase our costs, decrease our revenues and adversely affect our business and results of operations. We are exposed to government regulatory intervention regarding a broad range of issues, such as charges for premium and roaming services, interconnect tariffs, and other billing and customer service matters; the terms and conditions of our subscriber agreements; obligations under our operating licenses; the construction and maintenance of antennas and other network infrastructure; the provision of infrastructure access to existing or new providers of telecommunications services; frequency allocation; limitations or other constraints on the services and products that we may sell; and promotion of competition and anti-trust regulation. We are also affected by further strengthening of regulatory enforcement measures in connection with violations of applicable laws.

3D.1a Regulatory initiatives may continue to impact the cellular market, intensify competition and adversely affect our business and results of operations.

Over the last several years, the Ministry of Communications (“MoC”) has taken active steps to increase competition in the cellular telecommunications market. Such steps have included:

- *Granting licenses and frequencies to two facility-based competitors (HOT Mobile and Golan Telecom).* In April 2011, UMTS frequencies were awarded to Mircs Communications Ltd. (“MIRS”) (subsequently renamed “HOT Mobile”) and Golan Telecom Ltd. (“Golan Telecom”), which entered the cellular communications market in May 2012. HOT Mobile and Golan Telecom were awarded various benefits and leniencies, such as low minimum license fees and a reduction mechanism of the license fee (to the minimum fee set) offered to the winner based on the market share gained in the private sector over five years after being awarded the license. In order to achieve market share, these two competitors launched aggressive tariff plans which include unlimited use packages (with fair use limits). They have been granted substantial leniencies with respect to new frequency allocations (4G) of up to 50% discounts on frequency fees based on increasing their market share up to 5%. They have also been granted rights to use the frequencies for longer terms than ours, and they have received a waiver or other leniencies regarding their obligation to build an independent network.
- *Facilitating entry of MVNOs into the market.* Since 2010, the Ministry of Communications has adopted regulations to enable Mobile Virtual Network Operators (“MVNOs”) to offer telecommunications services, and it has granted licenses to 11 MVNOs. The most recent licenses were granted in January 2013.
- *Facilitating migration of customers between cellular companies.* On January 1, 2013, an amendment to the Communications Law (Telecommunications and Broadcasting), 1982 (the “Telecommunications Law”) became effective which prohibits cellular companies from linking cellular service transactions and handset-related transactions (unless the subscriber holds more than 100 lines). This amendment was added to previous amendments promulgated by the Ministry of Communications to facilitate the migration of subscribers among cellular companies and thus enhance competition, including the cancellation of exit fees before the end of a customer’s commitment period, cancellation of commitment periods and a prohibition on selling SIM-locked handsets.
- *Further reduction of cellular interconnection tariffs.* An MOC economic opinion in February 2013 included a recommendation for a further reduction of cellular call and SMS interconnect tariffs towards the end of 2016. Such a reduction may materially adversely affect our business and results of operations since operating profit from interconnect traffic is significant.
- As of April 2015, the MoC published a clarification that operators cannot discriminate between new and existing customers with respect to the sale of plans.

As a result of such measures, the level of competition in the cellular market has increased substantially, leading to a material increase in churn rate and significant price erosion. If this trend continues, it may continue to materially adversely affect our business and results of operation. See “Item 3D.2e Competition resulting from the full service offers by telecommunications groups and additional entrants into the mobile telecommunications market, as well as other actual and potential changes in the competitive environment and communications technologies, may continue to cause a further decrease in tariffs, an increase in subscriber acquisition and retention costs, and may continue to reduce our subscriber base and increase our churn rate, each of which could adversely affect our business and results of operations.”

3D.1b The MoC has failed to enforce its fixed-line wholesale market reforms (originally intended to allow telecommunication providers, such as Partner, that do not have their own fixed-line infrastructure to include the infrastructure component as part of their bundled service offerings). The MoC may also roll back such reforms. Such actions may negatively affect our business and results of operations. In addition, if the structural separation provisions (which apply to Bezeq and HOT Telecom) are removed before we have established ourselves in the fixed-line market, this would negatively affect our business and results of operations.

Bezeq-The Israel Telecommunication Corp., Ltd. ("Bezeq") and HOT Telecom are the only major fixed-line operators in Israel that own and operate a nationwide fixed-line infrastructure. Providers of telecommunications services that do not have their own fixed-line infrastructure ("Service Providers"), such as Partner, are therefore at a disadvantage when competing with Bezeq and Hot Telecom in the fixed-line market.

MoC policy and decisions regarding the wholesale market reform (aimed at increasing competition in the fixed-line telecommunications market) have not been effectively enforced by the MoC since May 2015. For Service Providers, including Partner, to be able to offer services of adequate quality and respond in a competitive manner to retail market demand in the fixed-line market, the MoC must ensure that the relevant wholesale services provided by Bezeq and HOT Telecom are of sufficient technical and operational standards and that its decisions and policies are complied with. If the MoC continues to fail in enforcing its wholesale market policy (such as regarding Bezeq's refusal to implement wholesale telephony and Bezeq's refusal to activate the broadband services at the socket inside consumer premises), our business and results of operations may be materially negatively affected. See "Item 4B.13d - x The Ministry of Communications policy regarding the fixed-line telecommunications sector".

The MoC has announced that it intends to cancel the regulations requiring Bezeq to maintain a "structural separation" between its fixed-line and mobile telecommunications operations, and to change the current retail fixed-price tariff control mechanism to a "maximum tariff" mechanism. The MoC's work plan for the year 2016 includes a reference to removal of structural separation provisions during 2016. Recently, the MoC has published official announcements which indicate its satisfaction with the implementation of the wholesale market reform. We have strongly opposed the factual descriptions and the conclusions in the announcement. If the MoC removes the structural separation provisions based on its above-mentioned announcements before we have firmly established ourselves in the fixed-line telecommunications services market (in both fixed-line telephony and broadband), Bezeq may be able to propose bundled services more effectively than we, and thereby gain a competitive advantage which would negatively affect our results of operations.

Furthermore, if the Ministry of Communications then also permits price reductions for bundled components (which are currently prohibited under structural separation provisions applicable to Bezeq) before an effective wholesale market has been implemented, Bezeq may be able to take advantage of their nationwide presence and cross-subsidization to market and sell more competitive and attractive offers than we will be able to offer, including cellular and TV services. The timeline for these contemplated changes is unclear.

The structural separation limitations also oblige Bezeq to equally market all ISPs when selling service bundles which include its infrastructure services and ISP services. Since the launch of the wholesale market reform, Bezeq has launched a bundle which includes its services and the services of certain ISPs and does not market all ISPs equally. If the MoC continues to fail to effectively enforce these obligations, this may continue to erode our market share in the ISP segment.

In addition, for us to compete effectively in the fixed-line market, the Ministry of Communications would need to establish a mechanism which prevents Bezeq and HOT Telecom from exploiting their cost advantage over the Service Providers (a "margin squeeze" mechanism). Because Bezeq and HOT Telecom's infrastructure costs are lower than the wholesale prices they propose to Service Providers, they benefit from a cost advantage. Should the Ministry of Communications' future decisions with regard to the margin squeeze mechanism not prove effective in ensuring the effectiveness of the wholesale market, our profitability and results of operations could be materially adversely affected. See "Item 4B.13d - x The Ministry of Communications policy regarding the fixed-line telecommunications sector".

If the Ministry of Communications continues to fail to effectively implement the measures described above, or if the operational implementation of these measures fails due to operational barriers imposed by Bezeq and HOT Telecom or if the required financial resources cannot be obtained, our ability to compete effectively in the fixed-line market or the future television market would be significantly limited. As a result we may lose market share in the ISP segment as well as in the cellular market.

For further information regarding this risk, see “Item “4B.13d - x The Ministry of Communications policy regarding the fixed-line telecommunications sector”.

3D.1c Potential future regulation and negotiation of roaming tariffs, both within Israel and elsewhere, may increase our roaming expenses, decrease our roaming revenues and prevent us from raising our tariffs.

MoC data collection and evaluation of roaming charges. The Ministry of Communications has declared its intention to evaluate roaming charges. In 2008, the government instructed the Ministry of Communications, together with other ministries, to negotiate a reduction of inbound and outbound roaming tariffs with the European Union (“EU”) and/or members of the EU or countries frequently visited by Israelis, and to consider other tools for reducing roaming charges. As a result, the Ministry of Communications has requested Partner and its competitors to provide information regarding our roaming services and tariffs. If roaming tariffs are reduced as a result of the review by the Ministry of Communications or as a result of the proposed negotiations or otherwise, if additional EU member operators raise their tariffs, or if we are not able to raise our tariffs or otherwise compensate for possibly higher roaming expenses, our profitability and results of operations could be materially adversely affected.

Increasing competition in roaming and reducing customer charges. In August 2014, the Ministry of Communications published a hearing aimed at increasing competition in roaming services abroad currently provided by cellular licensees. As part of the hearing, the Ministry proposed to enable every cellular subscriber to receive roaming services abroad from operators which are not his cellular provider while keeping his cellular number. These alternative roaming providers include other cellular licensees, MVNOs, ISPs, international call licensees and fixed telephony licensees. Provision of services to alternative service providers by virtue of our existing roaming agreements may require the consent of foreign operators. If such consent is not provided, some of our roaming agreements may be cancelled, which may negatively affect our results of operations.

The Ministry also suggested adopting various measures intended to improve transparency and limit subscriber payments only to the exact volume of services consumed. Such measures include: All roaming calls abroad (incoming and outgoing) would be billed using one second time units; all roaming data sessions would be billed using one KB volume units; the billable duration of all voice calls would be from the second in which the call was connected until it ended (explicitly excluding any wait period from pushing the “call” button until the call is connected). We submitted our response to the hearing in October 2014. Following Partner’s response, the MoC clarified that billing according to one second time units would not apply retroactively. We are currently unable to evaluate the scope of investments and expenses which would be required to comply with the proposed measures, or their impact on revenues, if applied.

3D.1d Other regulatory developments may have a negative impact on the Company’s business and results of operation.

Other regulatory developments that may have a negative impact on the Company’s business and results of operation include:

- *Unified license.* In November 2014, the Ministry of Communications published its decision regarding the obligation of all existing telecommunications licensees except Bezeq and HOT Telecom to be regulated by a unified general license. The Ministry decided that existing licensees be required to conform to the unified license which would cover international Long Distance (“ILD”) services, special fixed-line services, Internet Service Providers (“ISP”) and network termination point (“NTP”) services. Such an obligation may impose additional constraints on the Company’s business and operations in the relevant segments, may facilitate the entry of existing licensees into additional telecommunications segments and may involve additional costs of compliance and implementation.

As per the MoC's mandatory timeline, the Company submitted detailed applications for replacing its ILD license and its two special fixed-line services licenses with three unified licenses. The Company is currently coordinating with the MoC the timeline for its transition to a single unified license.

- *Proposed new regulations for the ILD market.* In October 2013, the Ministry of Communications published a hearing regarding proposed new regulations for the ILD market. The MoC proposed allowing all general telecommunications licensees (including MVNOs) to provide international call services to international destinations included in their subscribers' tariff plans as well as to international destinations for which the tariff is lower or equal to the tariff for a domestic call on the licensee's network ("Included Destinations"). In this hearing, the Ministry of Communications also proposed that general licensees (such as cellular operators) would no longer be allowed to charge interconnect fees for outgoing international calls. We submitted our response to this hearing in January 2014. In October 2014, the MoC published a secondary hearing on this matter, in which it proposed that all outgoing international calls which are not to Included Destinations, shall be preceded with a voice message stating the tariff of such call and allowing the subscriber to disconnect without being charged. We submitted our response to this secondary hearing in October 2014. Following our response, the MoC published a tertiary hearing, with regards to the terms and conditions which will apply to Bezeq and HOT Telecom in the ILD market during the interim period until their structural separation limitations are lifted.

Our revenues may be adversely affected if the changes proposed in these hearings are adopted.

For the reasons given above and further below, regulation of our industry has had in the past, and may in the future have, a material adverse effect on our business and results of operations. In addition, new laws, regulations or government policies, or changes in current regulations, may be adopted or implemented in a manner which damages our business and operating results. Announcements by the government of changes or other developments in applicable regulations may have a negative impact on the market value of our shares. For information regarding the principal regulations and regulatory developments affecting our business, see "Item 4B.13 Regulation". Furthermore, defending ourselves against regulatory violations alleged by state authorities or consumers has required, and may in the future require, substantial financial and management resources. We may not always be successful in our defense, and should we be found in violation of these regulations, we and our management may be subject to civil or criminal penalties, including the loss of our operating license as well as administrative sanctions. For information regarding on-going litigation and legal proceedings, see "Item 8A.1 Legal And Administrative Proceedings".

3D.1e We have had difficulties obtaining some of the building and environmental permits required for the erection and operation of our network sites, and some building permits have not been applied for or may not be fully complied with. These difficulties could have an adverse effect on the coverage, quality and capacity of our network. Operating network sites without building or other required permits, or in a manner that deviates from the applicable permit, may result in criminal or civil liability to us or to our officers and directors.

Our ability to maintain and improve the extent, quality and capacity of our network coverage depends in part on our ability to obtain appropriate sites and approvals to install our network infrastructure, including network sites. The erection and operation of most of these network sites require building permits from local or regional planning and building authorities, as well as a number of additional permits from other governmental and regulatory authorities. In addition, as part of our network build-out and expansion, we are erecting additional network sites and making modifications to our existing network sites for which we may be required to obtain new consents and approvals.

For the reasons described in further detail below, we have had difficulties obtaining some of the building permits required for the erection and operation of our network sites. As of December 31, 2015, less than 10% of our network sites were operating without local building permits or exemptions which, in our opinion, are applicable. In addition, some of our network sites are not built in full compliance with the applicable building permits.

Network site operation without required permits or that deviates from the permit has in some cases resulted in the filing of criminal charges and civil proceedings against us and our officers and directors, and monetary penalties against the Company, as well as demolition orders. See “Item 8A.1 Legal and Administrative Proceedings”. In the future, we may face additional demolition orders, monetary penalties (including compensation for loss of property value) and criminal charges. The prosecutor’s office has a national unit that enforces planning and building laws. The unit has stiffened the punishments regarding violations of planning and building laws, particularly against commercial companies and its directors. If we continue to experience difficulties in obtaining approvals for the erection and operation of network sites and other network infrastructure, this could have an adverse effect on the extent, coverage and capacity of our network, thus impacting the quality of our cellular voice and data services, and on our ability to continue to market our products and services effectively. In addition, as we seek to improve the range and quality of our services, we need to further expand our network, and difficulties in obtaining required permits may delay, increase the costs or prevent us from achieving these goals in full. Our inability to resolve these issues could prevent us from maintaining the quality requirements contained in our license.

Uncertainties under National Building Plan 36. Since June 2002, following the approval of the National Building Plan 36 (the “Plan”), which regulates network site construction and operation, building permits for our network sites (where required) have been issued in reliance on the Plan. Several local planning and building authorities have questioned the ability of Israeli cellular operators to receive building permits, in reliance on the Plan, for network sites operating in frequencies not specifically detailed in the frequency charts attached to the Plan. In a number of cases, these authorities have refused to grant building permits for network sites, claiming that frequencies are not included in the Plan. There has been no judicial ruling at this stage. A class action that was filed against us as well as other cellular operators a number of years ago with a request for the revocation of the building permits given to the 3G network sites was dismissed during 2012. However, in November 2015, a preliminary hearing on such a case involving one of the cellular operators was held in the Tel Aviv district court. The court determined that since this was a matter of principle that could have far reaching ramifications in which it intended to rule, it requested the Ministry of Justice’s opinion before ruling on the matter. If the court rules that building permits cannot be issued for network sites operating in frequencies not specifically detailed in the frequency charts attached to the Plan, this could have a material adverse effect both on our ability to erect new sites as well as on our existing sites.

The Plan is in the process of being changed. See “Item 4B.13g Network Site Permits”.

Uncertainties regarding the validity of exemptions for wireless access devices. We have set up several hundred small communications devices, called wireless access devices, pursuant to a provision in the Telecommunications Law which exempts such devices from the need to obtain a building permit. A claim was raised that the exemption does not apply to cellular communications devices and the matter reached first instance courts a number of times, resulting in conflicting decisions. This claim is included in an application to certify a class action filed against the three principal Israeli cellular operators. In May 2008, a district court ruling adopted the position that the exemption does not apply to wireless access devices. We, as well as our competitors, filed a request to appeal this ruling to the Supreme Court. In May 2008, the Attorney General filed an opinion regarding this matter stating that the exemption does apply to wireless radio access devices under certain conditions. Two petitions were filed with the High Court of Justice in opposition to the Attorney General’s opinion. The matter is still pending before the Supreme Court and the High Court of Justice. See “Item 4B.13g Network Site Permits”.

If a definitive court judgment holds that the exemption does not apply to cellular devices at all, we may be required to remove the existing devices. As a result, our network capacity and coverage would be negatively impacted, which could have an adverse effect on our revenue and results of operations.

Uncertainties regarding requirements for repeaters and other small devices. We, like the other cellular operators in Israel, provide repeaters, also known as bi-directional amplifiers, to subscribers seeking an interim solution to weak signal reception within specific indoor locations. In light of the lack of a clear policy of the local planning and building authorities, and in light of the practice of the other cellular operators, we have not requested permits under the Planning and Building Law, 1965 (“Planning and Building Law”) for the repeaters. However, we have received an approval to connect the repeaters to our communications network from the Ministry of Communications and have received from the Ministry of Environmental Protection permit types for all our repeaters. If the local planning and building authorities determine that permits under the Planning and Building Law are also necessary for the installation of these devices, or any other receptors that we believe do not require a building permit, it could have a negative impact on our ability to obtain permits for our repeaters.

In addition, we construct and operate microwave links as part of our transmission network. The various types of microwave links receive permits from the Ministry of Environmental Protection in respect of their radiation level. Based on an exemption in the Telecommunications Law, we believe that building permits are not required for the installation of most of these microwave links on rooftops, but to the best of our knowledge, there is not yet a determinative ruling on this issue by the Israeli courts. If the courts determine that building permits are necessary for the installation of these sites, it could have a negative impact on our ability to obtain environmental permits for these sites and to deploy additional microwave links, and could hinder the coverage, quality and capacity of our transmission network.

The Ministry of Environmental Protection's Request for the Installment of Monitoring Devices. In May 2010, the Ministry of Environmental Protection notified the Company of a new condition for all of the Company's network site operation permits, according to which the Company must install in its systems software (provided by the Ministry of Environmental Protection) that continuously monitors and reports the level of power created in real time from the operation of its network sites. The Company has complied with this condition. Although the Ministry of Environmental Protection sent to all the cellular network operators, notice of an administrative and criminal enforcement procedure that will be implemented by the Ministry as part of the monitoring devices, Partner, as well as the other cellular network operators, advised the Ministry that based on their experience so far from the alerts that have been received and examined by their engineers, it seems that the devices are not credible and therefore administrative and criminal proceedings should not be based on their findings. The Ministry of Environmental Protection has not yet responded.

The Company is of the opinion that all of the antennas that it operates comply with the conditions of the safety permits that the Company was granted by the Ministry of Environmental Protection. However, implementation of the monitoring software increases the exposure of the Company and its senior officers to civil and criminal proceedings in the event that any antennas are found to not meet the conditions of the permits granted to the Company and the maximum permitted power. In addition, if our antennas are found to not meet the conditions of the permits granted to the Company and the maximum permitted power, the Ministry of Environmental Protection may revoke existing permits, which would require us to dismantle existing network sites. As a result, our network capacity and coverage would be negatively impacted, which could have an adverse effect on our revenue and results of operations.

3D.1f In connection with some building permits, we may also be required to indemnify planning committees in respect of claims against them relating to the depreciation of property values that result from the granting of permits for network sites.

Under the Planning and Building Law, local planning committees may be held liable for the depreciation of the value of nearby properties as a result of approving a building plan. Under the Non-Ionizing Radiation Law, 2006 ("the Non-Ionizing Radiation Law") the National Council for Planning and Building requires indemnification undertakings from cellular companies as a precondition for obtaining a building permit for new or existing network sites. The National Council has decided that until the Plan is amended to reflect a different indemnification amount, cellular companies will be required to undertake to indemnify the committees in full against all losses resulting from claims against a committee for reductions in property values as a result of granting a permit to the network site. On June 1, 2010, the National Council for Planning and Building approved the National Building Plan No. 36/A/1 version that incorporates all of the amendments to the Plan (the "Amended Plan"). The Amended Plan sets forth the indemnification amounts as a percentage of the value of the depreciated property claims in accordance with the manner in which the licenses were granted. See "Item 4B.13g Network Site Permits". The Amended Plan is subject to governmental approval, in accordance with the Planning and Building Law. It is unknown when the government intends to approve the Amended Plan.

As of December 31, 2015, we have provided local authorities with 503 indemnification undertakings. These indemnifications expose us to risks which are difficult to quantify or mitigate and which may have a material adverse effect on our financial conditions and results of operations, if we are required to make substantial payments in connection therewith. In addition, the requirement to provide indemnification in connection with new building permits may impede our ability to obtain building permits for existing network sites or to expand our network with the erection of new network sites. The indemnification requirement may also cause us to change the location of our network sites to less suitable locations or to dismantle existing network sites, which may have an adverse effect on the quality and capacity of our network coverage.

In 2007, the Israeli Ministry of Interior Affairs extended the limitation period within which depreciation claims may be brought under the Planning and Building Law from three years from approval of the building plan to the later of one year from receiving a building permit for a network site under the Plan and six months from the construction of a network site. The Ministry retains the general authority to extend such period further. This extension of the limitation period increased our potential exposure to depreciation claims.

3D.1g We may have less access to spectrum for fourth generation (4G) services than some of our competitors as a result of network sharing agreements. We also may be required to terminate the use of certain spectrum or to share with another operator some of the spectrum we are currently using on an exclusive basis. If these developments occur, they may adversely affect our network quality and capacity as well as our ability to provide our customers with competitive advanced technology services, which may adversely affect our results of operations.

Less access to 4G spectrum. Following the completion of the long-term evolution ("LTE") frequencies tender held during January 2015, the Ministry of Communications allocated additional spectrum for LTE services in the 1800 range to us and to some other competing cellular telecommunications operators. Through network sharing arrangements, we and our competitors are able to expand our access, albeit on a shared basis with a partner, to these frequencies. In light of the above, enhancing the ability to offer advanced technology services depends on the sharing arrangements ultimately adopted and approved by the regulatory authorities, the conditions and regulatory limitations that will be imposed on such agreements, and the execution of such arrangements. If we are unable to successfully reform our 5 MHz frequency band in the 1800 range, which is currently used for GSM, we may have less access to 4G spectrum than some of our competitors, which would adversely affect our ability to offer equally or more attractive services. See "Item 4B.13d Regulatory Developments - LTE Spectrum Allocation".

Possible rearrangement of allocated spectrum. There have been demands from different third parties to rearrange the current spectrum allocation in Israel and the Palestinian Administered Areas. We received in 2009 notification from the Civil Administration in Judea and Samaria of its intention to change the allocation of some of the spectrum previously allocated to us for our use in the West Bank, and that following the change, we may be allocated other spectrum in the West Bank and additional spectrum for our use in Israel. If we were prevented from using a portion of our existing spectrum, if alternative equivalent spectrum are not allocated to us, the allocation is of an inferior quality, or if we were required to share some of our spectrum, our ability to effectively manage our licensed spectrum for the use of GSM, UMTS and LTE or any other future technology could be reduced. As a result, our UMTS and LTE network capacity and any other new technology rollout plans may be negatively affected, which could have a material adverse effect on our operations, profitability and capital expenses. In addition, if any such re-allocation would involve substantial expenses for equipment replacement, this could have a material adverse effect on our results of operations. Until we receive further details regarding this allocation of spectrum, we are unable to evaluate the impact that the intended change in spectrum allocation, if it occurs, will have on our business or our results of operations.

3D.1h We can only operate our business for as long as we have licenses from the Ministry of Communications. A legislative amendment has increased the extent of monitoring and enforcement measures of the Ministry of Communications.

We conduct our operations pursuant to licenses granted to us by the Ministry of Communications, which may be extended for additional periods upon our request to the Ministry of Communications and confirmation from the Ministry that we have met certain performance requirements. We cannot be certain that our licenses will not be revoked, will be extended when necessary, or, if extended, on what terms an extension may be granted. See "Item 4B.13e Our Mobile Telephone License".

Furthermore, although we believe that we are currently in compliance with all material requirements of our licenses, disagreements have arisen and may arise in the future between the Ministry of Communications and us regarding the interpretation and application of the technical standards used to measure these requirements, including the requirements regarding population coverage and minimum quality standards and other license provisions. We have provided significant bank guarantees to the Ministry of Communications to guarantee our performance under our licenses. See Note 1(d) to the consolidated financial statements. If we are found to be in material breach of our licenses, the guarantees may be forfeited and our licenses may be revoked. In addition, the Ministry of Communications is authorized to levy significant fines on us for breaches of our licenses, which could have a material adverse effect on our financial condition or results of operations. In August 2012, an amendment to the Telecommunications Law was enacted which sets a mechanism that allows the Ministry of Communications to impose significant financial sanctions on a licensee based on two parameters: the annual income of the violator (NIS 1.6 million plus 0.225% of the annual income of the licensee) and the degree of severity of the violation. The potentially significant financial sanctions are expected to lead to materially increased monitoring and enforcement measures by the Ministry of Communications towards the licensees.

3D.1i Our mobile telephone license imposes certain obligations on our shareholders and restrictions on who can own our shares. Ensuring compliance with these obligations and restrictions may be outside our control, and may limit our ability to raise new equity capital. If the obligations or restrictions are not respected by our shareholders, we could lose our license.

As with other companies engaged in the telecommunications business in Israel, our license requires that a minimum economic and voting interest in, and other defined means of control of our company be held by Israeli citizens and residents or entities under their control. If this requirement is not complied with, we could be found to be in breach of our license, even though ensuring compliance with this restriction may be beyond our control. See “Item 4B.13e Our Mobile Telephone License”.

Our general mobile telephone license requires that our “founding shareholders or their approved substitutes”, as defined in the license, hold at least 26% of the means of control in the Company, including 5% which must be held by Israeli founding shareholders (Israeli citizens and residents), who were approved as such by the Minister of Communications. If the Company decides to raise capital, it may face significant difficulty to do so since the current holdings of Israeli entities (as defined in the license) holdings are approximately 5% and any equity offering to the public or to the Company’s employees and office holders will require an equivalent equity offering of shares to Israeli entities, in a manner in which the total Israeli entities founding shareholders’ holdings will not be less than 5% of the total issued share capital. Since these Israeli entity shares require pre-approval of the MoC to determine that the receiving shareholder is eligible to be an Israeli entity, they are limited in their capability of transfer to another shareholder. The Company may need to grant a significant discount in an equity offering of these Israeli entity shares. If the Company were required to raise capital and this issue prevented it from doing so, our business could be adversely impacted (e.g., reduction in sales with long term credit arrangements and/or reduction in capital investments). The license also requires that these Israeli founding shareholders appoint at least 10% of our Board of Directors. In 2006, our Israeli founding shareholders sold substantially all of their shares in the Company to Israeli institutional investors, who were approved as substitutes. Since then, there were additional share sales to Israeli institutional investors that were approved as substitutes by the Minister of Communications.

In addition, according to our license, no transfer or acquisition of 10% or more of any of such means of control, or the acquisition of control of our company, may be made without the consent of the Minister of Communications. Nevertheless, under certain licenses granted, directly or indirectly, to Partner, approval of, or notice to, the Minister of Communications may be required for holding of 5% or more of Partner’s means of control. Our license also restricts cross-ownership and cross-control among competing mobile telephone operators, including the ownership of 5% or more of the means of control of both our company and a competing operator, without the consent of the Minister of Communications, which may limit certain persons from acquiring our shares. Shareholdings in breach of these restrictions relating to transfers or acquisitions of means of control or control of Partner could result in the following consequences: the shares will be converted into “dormant” shares as defined in the Israeli Companies Law, 1999 (“Israeli Companies Law”), with no rights other than the right to receive dividends or other distributions to shareholders, and to participate in rights offerings until such time as the consent of the Minister of Communications has been obtained and our license may be revoked. In addition, under certain licenses of the Company’s subsidiaries, approval of, or notice to, the Minister of Communications may be required for holding of less than 5% of means of control. Because of this lack of consistency, Partner may be in breach of its licenses in this regard.

3D.2 RISKS RELATING TO OUR BUSINESS OPERATIONS

3D.2a As a result of substantial and continuing changes in our regulatory and business environment, our operating results have decreased significantly in the past five years, with a loss recorded for 2015. Our operating results may continue to decline in 2016 and beyond, which may adversely affect our financial condition.

Our revenues in 2015 were NIS 4,111 million (US\$ 1,054 million), a decrease of 7% from NIS 4,400 million in 2014 and a decrease of 9% from NIS 4,519 million in 2013. The Company recorded a loss for 2015 of NIS 40 million (US\$ 10 million), compared with profits of NIS 162 million for 2014 and NIS 135 million for 2013. Loss per share for 2015 was NIS 0.26, compared with earnings per share of NIS 1.04 for 2014 and NIS 0.87 for 2013. The principal factor leading to this continued decline in operating results over the past few years has been the intense competition resulting largely from regulatory developments intended to enhance competition in the Israeli telecommunications market. These developments have caused (i) significant price erosion in cellular services due to heightened competition from new entrants (since 2012) in the Israeli cellular market and (ii) a decrease in our cellular subscriber base and market share. The decrease in service revenues due to the continued price erosion is expected to continue in 2016.

Because the regulatory environment continues to evolve with the objective of further increasing competition in the various markets in which we operate, depending on past and future regulatory and market developments, these factors may continue to negatively impact our business through 2016 and beyond, which may adversely affect our financial condition by, among other things, increasing the risk of a substantial further impairment in the value of our telecommunications assets. See also "Item 5D.2 Outlook".

3D.2b Our level of indebtedness could adversely affect our business, profits and liquidity. Furthermore, the continued decline in cash flow (excluding payments from Orange with respect to the Settlement Agreement) and difficulties in generating sustainable cash flow may impair our ability to repay our debt and reduce the level of indebtedness.

As of December 31, 2015, total net financial debt (total current and non-current borrowings and notes payables less cash and cash equivalents) amounted to NIS 2,175 million (US\$ 557 million), compared to NIS 2,612 million at December 31, 2014. See "Item 5B.3 Total Net Financial Debt". The free cash flow for 2015 was NIS 567 million (US\$ 145 million) compared to NIS 520 million in 2014, representing an increase of 9%. The terms of the Company's borrowings also require the Company to comply with financial covenants for existing borrowings. The existing borrowing agreements allow the lenders to demand an immediate repayment of the borrowings in certain events (events of default), including, among others, a material adverse change in the Company's business and non-compliance with the financial covenants set in those agreements. Although the Company has entered into agreements for deferred borrowings in a total amount of NIS 450 million, these agreements allow the lenders to not provide the borrowings should any of the events of default defined for our existing borrowings occur prior to the date for providing the deferred borrowings. Such events include a material adverse change in the Company's business. See "Item 5B.2 LONG-TERM BORROWINGS".

In addition, our need for cash to service our substantial existing debt may in the future restrict our ability to continue offering long-term installment plans to promote sales of equipment. As a result, our ability to continue benefiting from one of the key current drivers of total Company profits may be limited. (See also "Item 5 Operating And Financial Review And Prospects" and specifically "Item 5D.2 Outlook");

Our substantial indebtedness could also adversely affect our financial condition and profitability by, among other things:

- requiring us to dedicate a substantial portion of our cash flow from operations to service our debt, thereby reducing the funds available for financing ongoing operating expenses and future business development;

- increasing our vulnerability to adverse economic, industry or business conditions or increases in the consumer price index (“CPI”), particularly because a portion of our borrowings is linked to the CPI;
- limiting our flexibility in planning for, or reacting to, changes in our industry and business as well as in the economy generally;
- increasing the likelihood of a downgrade in the rating of our Notes by the rating company;
- increasing the risk of a substantial impairment in the value of our telecommunications assets; and
- limiting our ability to obtain the additional financing we may need to serve our debt, operate, develop and expand our business on acceptable terms or at all.

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

3D.2c Our revenues from the pre-paid subscriber base have decreased over the last few years and may continue to decrease as a result of the increased competition in the market.

Over the last few years, our revenues from cellular pre-paid subscriber base have decreased. The principal factors leading to this continued decline over the past few years has been the decline in pricing of unlimited post-paid plans and therefore the relative attractiveness of those plans compared to the pre-paid plans as well as increased competition due to the entrance of new operators into the pre-paid market. If this trend continues, this may adversely affect our pre-paid subscriber based as well as our pre-paid revenues.

3D.2d The network sharing agreement entered into by Partner may not provide the anticipated benefits and may lead to unexpected costs. Network sharing and similar agreements entered into by our competitors may place us at a competitive disadvantage.

In November 2013, we entered into a 15-year network sharing agreement (“Network Sharing Agreement”) with HOT Mobile pursuant to which the parties created a joint venture, under the name P.H.I. Networks (2015) Limited Partnership (“PHI”). The purpose of PHI is to operate and develop a radio access network to be shared by both parties. However, the benefits from a pooled infrastructure may be less than anticipated, and the Company may experience unexpected costs for technical, legal or other matters which may arise in connection with its efforts to implement the agreement. It also may not be possible to operate the joint venture as the parties intend or at all. The sources of these uncertainties include the possibilities that:

- 1) either of the parties to the agreement experiences credit or payment difficulties and cannot contribute effectively to the financing of the joint venture;
- 2) the elimination of network sites results in lower operational savings than expected;
- 3) the joint venture experiences management deadlock; and
- 4) if and when the sharing will end, the resources, time and expense it may take to have our own network on a nation-wide coverage, may be substantial and could materially harm our business and results of operations at such time.

In May 2014, the Antitrust Commissioner resolved to approve the Network Sharing Agreement, subject to a number of conditions. In the event we are found to be in breach of any of these conditions, the Antitrust Commissioner’s approval of the Network Sharing Agreement could be terminated, which could create significant uncertainty as to the management of the shared radio access network. The consequence, in addition to potential charges brought against individual members of our management, could be materially negative for our business and results of operations. In addition, after a period of seven years from the date of the Commissioner’s approval, the Commissioner may cancel the antitrust approval of the Network Sharing Agreement if he has concluded that PHI’s operations are liable to be substantively detrimental to competition in the market.

As of August 2015, when PHI began to operate, the purchase of all of the radio equipment as well as the maintenance, operation and management of our radio access network are performed by PHI. PHI is a separate entity with its own autonomous management and it is equally owned and, with respect to most issues, equally controlled, by Partner and by Hot Mobile. We are therefore, as a practical matter, materially dependent on the performance of PHI and its decision making, with respect to all aspects pertaining to the operation of our radio network. See "Item 4B.9a Overview - Cellular Network Sharing Agreement".

Network sharing and similar agreements entered into by our competitors

In December 2013, Cellcom Israel Ltd. ("Cellcom") and Golan Telecom announced that they had entered into a network sharing agreement under which Golan Telecom will be provided with an indefeasible right of use regarding Cellcom's 2G and 3G radio networks, and in May 2014 they announced that they entered into a network sharing agreement under which Golan Telecom will be provided with an indefeasible right of use regarding Cellcom's 4G radio network. The agreements have not been approved by the Ministry of Communications and the Israeli Antitrust Commissioner. However, if these agreements or any future network sharing agreement receive regulatory approval under conditions that are more lenient than those imposed on us, this would place us at a disadvantage compared to our competitors. As a result, our business and results of operations may be negatively impacted.

In November 2015, Cellcom announced that it had entered into an agreement with Golan Telecom and its shareholders for the purchase of 100% of Golan Telecom's shares. The agreement is subject to the approval of the Ministry of Communications and the Israeli Antitrust Commissioner. If the agreement receives regulatory approval this would place Cellcom at an advantage over all other competitors (including us) since it would increase its market share considerably.

3D.2e Competition resulting from the full service offers by telecommunications groups and additional entrants into the mobile telecommunications market, as well as other actual and potential changes in the competitive environment and communications technologies, may continue to cause a further decrease in tariffs, an increase in subscriber acquisition and retention costs, and may continue to reduce our subscriber base and increase our churn rate, each of which could adversely affect our business and results of operations.

Additional competition by Golan Telecom and HOT Mobile and lack of enforcement by MoC. HOT Mobile and Golan Telecom, which entered the market in May 2012, were awarded various benefits and leniencies, such as low minimum license fees and a reduction mechanism of the license fee (to the minimum fee set) offered to the winner based on the market share gained in the private sector over five years after being awarded the license. In addition, the MoC has failed to enforce Golan Telecom's license obligation regarding deployment of its infrastructure.

Entrance of the sixth facility-based operator. Following the 4G tender results, Xphone 018 Ltd. ("Xphone") gained one band of 5 MHz in the 1800 range, allowing it to share its frequencies with other operators and share their network (as part of a network sharing agreement). If Xphone will become the sixth facility based operator, this may further increase competition levels in the cellular market and negatively affect our results of operation.

Additional leniencies by the MoC as part of the 4G tender. The Ministry of Communications has granted various leniencies as part of the 4G tender to HOT Mobile, Golan Telecom and Xphone (which has participated in the 4G tender as a new operator). These leniencies include:

- a discount at a rate of up to 50% of the amount that they will have to pay for the frequencies (each addition of 1% market share will grant a discount at a rate of 10%, up to a maximum discount at a rate of 50%, during a period of 5 years);
- the frequencies would be granted to them for longer license terms than those of the other cellular licensees-each operator received the right to use the frequencies for the period equal to the initial term of their license and a new operator such as Xphone, for a period of 20 years from the time of the grant of such license ; and
- a waiver of HOT Mobile and Golan Telecom's obligation to build an independent network subject to their commitment to invest in a shared network with another operator the same amount that they have committed to invest in their UMTS network.

These leniencies place us at a substantial competitive disadvantage since they may lead to a further increase in the level of competition, which may negatively affect our results of operations.

Entrance of additional MVNOs. The entrance of additional MVNOs has further increased competition in the market, since some MVNOs are retailers with a wide customer base and distribution network that allows them to offer attractive package prices to their customers. See “Item 4B.10a Competitors in the Cellular Services market”

Competitive advantages of the two fixed-line infrastructure groups. The Bezeq Group and the HOT Group are the only Israeli telecommunications providers that have their own nationwide fixed-line telecommunications infrastructures. See Item 3D.1b “The MoC has failed to enforce its fixed-line wholesale market reforms (originally intended to allow telecommunication providers, such as Partner, that do not have their own fixed-line infrastructure to include the infrastructure component as part of their bundled service offerings). The MoC may also roll back such reforms. Such actions may negatively affect our business and results of operations. In addition, if the structural separation provisions (which apply to Bezeq and HOT Telecom) are removed before we have established ourselves in the fixed-line market, this would negatively affect our business and results of operations.”

Bezeq Group – Bezeq, Israel’s largest telecommunications provider and the primary fixed-line operator, provides fixed-line telephony services, cellular telecommunications services, primary rate interface (“PRI”), broadband internet access infrastructure services, ISP services, transmission and data communications services, ILD services and multi-channel television services.

HOT Group – The HOT Group provides cellular telecommunications services, multi-channel television services, fixed-line telephony services, PRI, broadband internet access, infrastructure services, transmission and data communications services, ISP services and ILD services.

Because the Bezeq Group and the HOT Group operate their own broadband internet access and transmission infrastructures, they do not depend on any third party for broadband internet access. Partner and other telecommunications services providers who do not have broadband internet access infrastructure are unable to provide some of these services, substantially limiting their ability to compete.

Israel Broadband Company (IBC). In August 2013, the Minister of Communications granted Israel Broadband Company (2013) Ltd. (“IBC”), a general license for the provision of fixed-line telecom services (infrastructure) and for the establishment of a nationwide optic fiber network using the Israeli Electric Company’s infrastructure. IBC has launched a web portal in which it offers ISP services to end-users (through agreements with selected ISPs). The variety of suppliers, immediate choice, and ability to quickly switch suppliers may commoditize the ISP segment and negatively impact our revenues and profits. IBC was also granted a special license for the provision of domestic fixed-line data communication. According to local media reports, IBC is permitted under its special license to provide its services to large business customers. Entry of IBC into the large business segment of the ISP market may increase competition in this segment and erode our market share and may affect our results of operation.

Sale of handsets and other equipment. Competition in the market for handsets and other equipment including tablets, laptops, audio-visual devices and other related equipment sold by the Company is high and may increase, which may affect our results of operation.

Competition in Roaming Services. Some of our competitors may be able to obtain lower roaming rates than us either because they have larger call volumes or through their affiliations with other international cellular operators. Some competing service providers use alternative technologies for roaming that bypass the existing method of providing roaming services. In addition, the entry into the market of MVNOs and two additional infrastructure based cellular operators has increased competition in the roaming market, since some of the entrants offer roaming solutions that allow them to set lower roaming charges. In addition, the requirement to sell unlocked handsets facilitates the ability of subscribers to use local SIM cards in their handsets when traveling abroad, which may compete with our roaming services and negatively affect our revenues and profits from roaming. Further competition in roaming services (both inbound and outbound) has arisen and may arise in the future from other telecommunication operators and new technologies that allow subscribers to use global SIM cards and pure internet-based services such as Skype, Viber and WhatsApp, as well as other operator products which use VoIP applications. In addition, during 2015 some cellular operators began marketing plans that, in addition to calls, SMS and internet, include roaming services to set lists of countries.

Reliance on other service providers for roaming. We rely on agreements to provide roaming capability to our subscribers in many areas outside Israel. However, we cannot control the quality of the service that other telecommunication companies provide or whether they will be able to provide the services at all, and it may be inferior to our quality of service. Our subscribers also may not be able to use some of the advanced features that they enjoy when making calls on our network. As a result, we may lose some of our customers' roaming traffic to other roaming solutions, which would negatively impact our results of operations from this important source of earnings.

3D.2f Significant expansion in the capacity for international connectivity between Israel and Western Europe and increased competition in the ISP market resulted in sharp price decreases in these markets in 2011 and, as a result, caused us, and may in the future cause us, to recognize substantial impairment in the value of our fixed-line telecommunications assets.

Beginning in December 2011, total capacity available in international connectivity between Israel and Western Europe increased significantly as a result of the entry into operation of new underwater cables, and international connectivity services experienced a sharp decline in prices in the market for international connectivity. In addition, we face increased competition in the retail ISP market, mainly since the launch of HOT-NET in the beginning of 2012. We therefore performed, with the assistance of an independent appraisal an impairment test on assets that belong to the VOB/ISP Cash Generating Unit ("CGU") of our fixed-line segment. As a result of the testing, impairment charges in a total amount of NIS 235 million were recognized for the fixed-line business at December 31, 2011. In addition, the Company's management performed, as required, its annual impairment review of goodwill, which resulted in an impairment charge to goodwill in 2011 in an amount of NIS 87 million with respect to the VOB/ISP and ILD group of CGUs of the fixed line segment.

At December 31, 2015, we recorded further asset impairment of NIS 98 million for the fixed-line business in the ISP/VOB CGU. See "Item 5A.1f Acquisition of 012 Smile".

Continued increases in the level of competition for international connectivity and ISP services may bring further downward pressure on prices, and as a result, we may be required to perform further impairment tests of our fixed-line telecommunications assets in the future. Such impairment tests may lead to recording additional significant impairment charges, which could have a material negative impact on our operating and net profit.

In addition, continued increases in the level of competition for cellular, fixed-line and data transmission services may bring further downward pressure on prices which may require us to perform further impairment tests of our assets. Such impairment tests may lead to recording additional significant impairment charges, which could have a material negative impact on our operating and net profit.

3D.2g The unionization of our employees might prevent us from carrying out necessary organizational and personnel changes, result in increased costs or disruption to our operations, and reduce management's flexibility to adapt operations to market conditions, and our operating expenses may be increased, all of which could adversely impact our results.

In September 2014, we recognized the Histadrut, currently the largest Israeli labor union, as the union representing the Company's employees'. We signed a collective employment agreement with the employees' representatives and the Histadrut on March 13, 2016. The agreement includes an organizational chapter that is valid for a period of three years (2016-2018) and an economic chapter that is valid until December 30, 2016. The organizational chapter includes, among others, provisions regarding manning and changing of positions, termination of employment and tenure. The economic chapter includes, among others, provisions regarding terms of employment, benefits and welfare. See "Item 6D Employees".

As a result, management attention, that would otherwise be available for our ongoing business, must be directed towards the implementation of the collective employment agreement and other matters involving the unionization. The unionization of our employees may limit management's flexibility to efficiently run our business and adjust operations to market conditions, including the ability to execute organizational and personnel changes. The Company is expected to begin negotiations during 2016, regarding the economic chapter for the period of 2017-2018. If the Company reaches understandings with the employee representatives and the Histadrut regarding the economic chapter for 2017-2018, the Company may incur further expenses which could increase operating expenses and reduce profitability. Failure to reach an understanding with the employee representatives by December 31, 2016, may lead to disruptions in our operations or cause work stoppages.

3D.2h Our purchase commitments pursuant to our non-exclusive agreement with Apple for the purchase and resale of iPhone handsets in Israel may adversely affect our financial results.

Pursuant to a non-exclusive agreement we entered into in November 2012 with Apple Distribution International for the purchase and resale of iPhone handsets in Israel, we agreed to purchase a minimum quantity of iPhone handsets per year, for a period of three years. The agreement has been extended until April 30, 2016, while the parties are negotiating the renewal of the agreement. These purchases represent a significant portion of our expected handset purchases over that period. If we fail to meet the minimum quantities and do not reach an agreement with Apple regarding this matter, we may be in breach of the agreement which may involve payment of damages, which would increase our costs.

3D.2i We depend on a limited number of suppliers. Our results of operations could be adversely affected if our suppliers fail to provide us with adequate supplies of network equipment and handsets and other devices or maintenance support on a timely basis.

Network suppliers. We purchased our network equipment, such as switching equipment, base station controllers and base transceiver stations and network software, mainly from Ericsson as well as from Alcatel-Lucent and other suppliers. As of January 2008, we purchase all our UMTS and LTE network equipment from Ericsson. In October 2010, we entered into an agreement with Ericsson for the upgrade and modernization of our networks and the deployment of our fourth generation network in Israel. See "Item 4B.9g Suppliers". We are therefore, as a practical matter, materially dependent on Ericsson as our sole vendor for our UMTS and LTE networks.

Handset and other equipment suppliers. We purchase the majority of our handsets and other equipment from a limited number of suppliers.

We cannot be certain that we will be able to obtain equipment or handsets from one or more alternative suppliers on a timely basis in the event that any of our suppliers is unable to satisfy our requirements for equipment or handsets, or that the equipment provided by such alternative supplier or suppliers will be compatible with our existing equipment. Our handset suppliers may experience inventory shortages from time to time.

Our results of operations could be adversely affected if any of our key suppliers fails to provide us with adequate supplies of handsets, equipment, as well as ongoing maintenance and upgrade support, in a timely manner. In addition, our results of operations could be adversely affected if the price of network equipment rises significantly. In our experience, suppliers from time to time extend delivery times, limit supplies and increase the prices of supplies due to their supply limitations and other factors. If the availability of handsets and other equipment furnished by our suppliers is insufficient to meet our customers' demands, we may lose opportunities to benefit from demand for this product, and our unserved customers may purchase the equipment independently which may adversely affect our revenues. In addition, the constant development of new handsets and other equipment can render existing handsets and other equipment obsolete resulting in high levels of slow moving inventory.

3D.2j Unanticipated growth in subscriber demand for cellular data may require us to make additional investments and to modify certain products or services.

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

3D.2k We could be subject to legal claims due to the inability of our information systems to fully support our tariff plans.

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

3D.2l Actual and alleged health risks related to network sites and the use of mobile telecommunications devices, including handsets, could have a material adverse effect on our business, operations and financial condition.

A number of studies have been conducted to examine the health effects of wireless phone use and network sites, and some of these studies have been construed as indicating that radiation from wireless phone use causes adverse health effects. Media reports have suggested that radio frequency emissions from network sites, wireless handsets and other mobile telecommunication devices may raise various health concerns.

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

In May 2011, the International Agency for Research on Cancer (“IARC”), which is part of the World Health Organization (“WHO”), published a press release according to which it classified radiofrequency electromagnetic fields as possibly carcinogenic to humans based on an increased risk for adverse health effects associated with wireless phone use.

In June 2011, WHO published a fact sheet (no. 193) in which it was noted that “A large number of studies have been performed over the last two decades to assess whether mobile phones pose a potential health risk. To date, no adverse health effects have been established as being caused by mobile phone use”. It was also noted by WHO that “While an increased risk of brain tumors is not established, the increasing use of mobile phones and the lack of data for mobile phone use over time periods longer than 15 years warrant further research of mobile phone use and brain cancer risk in particular, with the popularity of mobile phone use among younger people, and therefore a potentially longer lifetime of exposure”. WHO notified that in response to public and governmental concern it will conduct a formal risk assessment of all studied health outcomes from radio frequency fields exposure by 2014. We are not aware that such an assessment has been published.

We have complied and are committed to continue to comply with the rules of the authorized governmental institutions with respect to the precautionary rules regarding the use of cellular telephones. We refer our customers to the precautionary rules that have been recommended by the Ministry of Health, as may be amended from time to time.

While, to the best of our knowledge, the handsets that we market comply with the applicable laws that relate to acceptable Specific Absorption Rate ("SAR") levels, we rely on the SAR levels published by the manufacturers of these handsets and do not perform independent inspections of the SAR levels of these handsets. As the manufacturers' approvals refer to a prototype handset, and not for each and every handset, we have no information as to the actual level of SAR of the handsets along the lifecycle of the handsets, including in the case of repaired handsets. See also "Item 4B.13f Other Licenses". Furthermore, our network sites comply with the International Council on Non-Ionizing Radiation Protection standard, a part of the World Health Organization, which has been adopted by the Israeli Ministry of Environmental Protection.

Several lawsuits have been filed in the past against operators and other participants in the wireless industry alleging adverse health effects and other claims relating to radio frequency transmissions from sites, handsets and other mobile telecommunications devices, including lawsuits against us.

A class action was filed against us and three other operators alleging, among other things, that health effects were caused due to a lack of cell sites, resulting in elevated levels of radiation, mainly from handsets. The plaintiffs stressed that health damages are not a part of the claim. Another class action was also filed against us and three other operators alleging, among other things, that the supply of accessories that are intended for carrying cellular handsets on the body are sold in a manner that contradicts the instructions and warnings of the cellular handset manufacturers and the recommendations of the Ministry of Health, and without disclosing the risks entailed in the use of these accessories when they are sold or marketed. In these two class actions, Partner and the plaintiff filed a settlement agreement, which the court approved. The plaintiff filed an appeal with the Supreme Court regarding the court's decision not to appoint an expert to examine the technical test which is part of the settlement.

In February 2009, a municipal court ruled against one of our competitors, stating that there is no need for the standard burden of proof to prove damages from a cellular network site, and that under certain circumstances it would be sufficient to prove the possibility of damage in order to transfer the burden of proof to the cellular companies. To the best of our knowledge, the defendant appealed the ruling and the ruling was dismissed as part of a settlement between the parties. Although we were not a party to this proceeding, such rulings could have an adverse effect on our ability to contend with claims of health damages as a result of the erection of network sites.

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

3D.2m In the event critical elements of our networks which provide mobile, fixed-line, ISP and ILD services are damaged or rendered fully or partially non-operational, we may not be able to replace them or return them to service quickly. As a result, we may not be able, for an indeterminate period of time, to provide services to a substantial portion of our subscribers, furnish some services properly or at all, charge for services provided or ensure data security, causing loss of revenues, a duty of compensation to subscribers, damage to our brand and reputation, and loss of customers.

Some elements of our network, particularly our mobile network, perform critical functions for broad sectors of our network operation, such as switching, billing and data platforms. If such a critical element were damaged or ceased proper operation due to natural causes (such as fire, water, extreme weather conditions, earthquake), technical failures (including as a result of the migration of fixed-line telephony, ISP and ILD customers into our integrated systems or hostile activities) (see "Item 3D.2r The political and military conditions in Israel may adversely affect our financial condition and results of operations.") or cyber incidents generated either externally through accidental malfunctioning or deliberate intrusion, or internally as a result of technical breakdown, damages may result to us or to our customers. For example, an entire sector of our network coverage or all of it may be rendered non-functioning, which means that we would not be able to provide telecommunications services to a substantial portion of our subscribers; or we may be unable to provide certain services, or to provide them without disruptions or charge for services rendered, or we may experience loss of data of the Company or of our customers stored with us. During 2015, we experienced an increase in cyber incidents, certain of which penetrated our cyber defenses, although no significant damage resulted and there was no loss of or access to subscriber data. Although we have integrated systems to protect against events such as cyber incidents and prepared Disaster Recovery Plans ("DRP"), it is not possible to determine in advance whether our defense systems and recovery plans will continue to be entirely effective, or how quickly we will be able to restore service. In addition, the 012 Smile systems through which we provide ISP, ILD and fixed-line telephony services and from which we intend to migrate our subscribers, are not of the latest generation and may have malfunctioning episodes with longer recovery times. In the event we are unable to provide some or all of the telecommunications services to a substantial portion of our subscribers, whether temporarily or for an extended period of time, or if subscriber data is lost or accessed, our business and short- and long-term results of operations will be materially negatively affected, we may be exposed to legal claims and liability to our subscribers, we may be in breach of our legal obligations towards our customers, our brand and reputation may be damaged, we may suffer a loss of customers, and we may be required to compensate our customers, which may adversely affect our results of operation.

3D.2n The telecommunications industry is subject to rapid and significant changes in technology and industry structure which could reduce demand for our services.

We face competition from existing or future technologies that have the technical capability to handle mobile, fixed-line and international long distance telephone calls, and to interconnect with local and international telephone networks and the Internet. Such new and evolving technologies include fixed-line and broadband wireless access services, Over the Top or Internet-based voice and multimedia services, Wi-Fi technologies and VoC. For example, internet-based services that provide user experience largely equivalent to our offerings, such as Voice over IP ("VoIP"), messaging services (WhatsApp, Skype, Viber), and video services (youtube, video portals) are already available. In addition, the rapid development in recent years of technologies that allow international calls to be placed over the Internet without the need to use the services of an ILD has caused a decrease in the amount of international call minutes placed through the ILD services and also serve as an alternative for fixed-line communications. In particular, the risk posed by VoIP is that the purchase of a data package alone will be sufficient for the provision of most cellular voice, data and messaging services.

The effect of emerging and future technological changes, including the convergence of technologies, on the viability or competitiveness of our network cannot be accurately predicted. The technologies we employ or intend to employ may become obsolete or subject to competition from new disruptive technologies in the future. Competition from new technologies in the future may have a material adverse impact on our business and results of operations.

Moreover, global equipment vendors and Internet providers have expressed their interest in penetrating the cellular telephone industry and strengthening their position along the value chain. They have expressed their intention, and some have already begun, to provide direct access to the end-user to a wide variety of applications and services (e.g Apple with iTunes and Google with the Android market). This has already changed our competitive position and may further increase the dominance of those new providers at the expense of cellular service providers. Changes in the industry value chain structure might result in an increase in our expenses as well as a decrease in our revenues.

3D.2o We are exposed to, and currently engaged in, a variety of legal proceedings, including requests to approve lawsuits as class actions related primarily to our network infrastructure and consumer claims.

In addition to a number of legal and administrative proceedings arising in the ordinary course of our business, we have been named as defendants in a number of civil and criminal proceedings related to our network infrastructure, which may result in civil liabilities or criminal penalties against us or our officers and directors, and consumer claims, including class action suits, regarding, for example, our tariff plans and billing methods or alleging, for example, unlawful charges, which are costly to defend and may result in significant monetary damages and civil penalties. The number of class actions that have been filed against us has increased over the past few years and this trend may continue in light of various amendments to the Consumer Protection Law and stricter regulatory policies that have been adopted. Recently, in class actions that require interpretation of our license provisions, the courts have in some instances requested the position of the Ministry of Communications or the Attorney General. In cases where the interpretation contradicts our interpretation and the court adopts the interpretation of the State, it may enforce the implementation of such provisions retroactively which may adversely affect our financial results. The costs that may result from these lawsuits are only accrued when it is more likely than not that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, and events arising during the course of legal proceedings may require a reassessment of this risk. The Company's assessment of risk is based both on the advice of legal counsel and on the Company's estimate of the financial exposure if the verdict is in favor of the plaintiff. If the requests to certify lawsuits against us as class actions are approved and succeed or if we underestimate the potential exposure our financial results will be adversely affected. See "Item 8A.1 Legal And Administrative Proceedings".

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

3D.2p We are dependent upon our ability to interconnect with other telecommunications carriers. We also depend on Bezeq and other suppliers for transmission services and some of our Fixed-Line Services are dependent on our having access to Bezeq and the HOT Group's fixed-line network. The failure of these carriers to provide these services on a consistent basis could have a material adverse effect on us.

Our ability to provide commercially viable fixed-line and cellular telephone services depends upon our ability to interconnect with the telecommunications networks of existing and future fixed-line, cellular telephone and international operators in Israel in order to complete calls between our customers and parties on the fixed-line or other cellular telephone networks. All fixed-line, cellular telephone and international operators in Israel are legally required to provide interconnection to, and not to discriminate against, any other licensed telecommunications operator in Israel. We have interconnect relations with all the Israeli operators, including Bezeq and HOT Telecom, and we also depend on their internet broadband access infrastructure in order to provide ISP services and VoB fixed telephony services to the residential market. See "Item 3D.1b The MoC has failed to enforce its fixed-line wholesale market reforms (originally intended to allow telecommunication providers, such as Partner, that do not have their own fixed-line infrastructure to include the infrastructure component as part of their bundled service offerings). The MoC may also roll back such reforms. Such actions may negatively affect our business and results of operations. In addition, if the structural separation provisions (which apply to Bezeq and HOT Telecom) are removed before we have established ourselves in the fixed-line market, this would negatively affect our business and results of operations."

We are also dependent on the submarine infrastructure made available by Med Nautilus, which provides mutual international transmission based on fiber optics between Israel and other countries. See "10C Material Contracts". We also depend on foreign operators that provide us with interconnection to the global internet network.

We also rely on agreements to provide ILD services to our subscribers. However, we cannot control the quality of the service that other foreign telecommunication companies provide or whether they will be able to provide the services at all, and it may be inferior to our quality of service.

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

3D.2q The recent rebranding of most of our goods and services may have a negative impact on our business due principally to lower brand recognition by our customers.

Since our inception, we have grown and marketed our business under the brand name “Orange”, under a brand license agreement with the Orange Group. As a brand name, Orange achieved high recognition in the Israeli market, and we believe contributed significantly to the development of our business.

On January 5, 2016, we announced that we had exercised our right under the settlement agreement signed with Orange in June 2015, to terminate the brand license agreement. See “Item 5A.1c Settlement Agreement with Orange Brand Services Ltd.” On February 16, 2016, we announced the new brand name, “Partner”, and simultaneously initiated a marketing campaign to build market awareness of the new brand and reinforce the image of quality and service which we had established under the Orange brand. See “Item 4B.5 MARKETING AND BRAND”.

Going forward, our sales of services and equipment may suffer principally as a result of lower brand recognition by our customers, and to some extent to the loss of customer loyalty to the Orange brand. Our competitors may use this opportunity to build their market share at our expense. The rebranding campaign will require significant operating expenditures. These consequences of the rebranding may thus have a negative impact on our financial results and business outlook.

Over the long term, therefore, our competitive position in the Israeli telecommunications market may be harmed, which would have a negative effect on our results and prospects.

3D.2r The political and military conditions in Israel may adversely affect our financial condition and results of operations.

The political and military conditions in Israel directly influence us. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. Hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners and political instability within Israel or its neighboring countries are likely to cause our revenues to fall and harm our business. During the last decade, there has been a high level of violence between Israel and the Palestinians, including missile strikes by Hamas against Israel, which led to an armed conflict between Israel and the Hamas over the past few years and more recently in July 2014. In the last few years, Iran has threatened to attack Israel with nuclear weapons.

There is evidence that Iran has a strong influence among extremist groups in areas that neighbor Israel, such as Hamas in Gaza and Hezbollah in Lebanon and Syria. This situation may potentially escalate in the future to violent events which may affect Israel and us. Ongoing violence between Israel and its Arab neighbors and Palestinians may have a material adverse effect on the Israeli economy, in general, and on our business, financial condition or results of operations. During such periods, incoming and outgoing tourism may be affected which consequently may have an adverse effect on our financial results. In particular, in recent conflicts, missile attacks have occurred on civilian areas, which could cause substantial damage to our infrastructure network, reducing our ability to continue serving our customers as well as our overall network capacity. In addition, in the event political unrest and instability in the Middle East, including changes in some of the governments in the region, causes investor concerns resulting in a reduction in the value of the shekel, our expenses in non-shekel currencies may increase, with a material adverse effect on our financial results.

Some of our directors, officers and employees are currently obligated to perform annual reserve duty. Additionally, all reservists are subject to being called to active duty at any time under emergency circumstances. In addition, some of our employees may be forced to stay at home during emergency circumstances in their area. We cannot assess the full impact of these requirements on our workforce and business if conditions should change.

During an emergency, including a major communications crisis in Israel's national communications network, a natural disaster, or a special security situation in Israel, control of our network may be assumed by a lawfully authorized person in order to protect the security of the State of Israel or to ensure the provision of necessary services to the public. During such circumstances, the government also has the right to withdraw temporarily some of the spectrum granted to us. Under the Equipment Registration and Mobilization to the Israel Defense Forces Law, 1987, the Israel Defense Force may mobilize our engineering equipment for their use, compensating us for the use and damage. This may materially harm our ability to provide services to our subscribers in such emergency circumstances, and would thus have a negative impact on our revenues and results of operations.

Moreover, the Prime Minister of Israel may, under powers which the Telecommunications Law grants him for reasons of state security or public welfare, order us to provide services to the security forces, to perform telecommunications activities and to set up telecommunications facilities required by the security forces to carry out their duties. While the Telecommunications Law provides that we will be compensated for rendering such services to security forces, the government is seeking a change in the Telecommunications Law which would require us to bear some of the cost involved with complying with the instructions of security forces. Such costs may be significant and have a negative impact on our revenues and results of operations.

3D.2s Operating a telecommunications network involves the inherent risk of fraudulent activities and potential abuse of our services, which may cause loss of revenues and non-recoverable expenses.

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

3D.2t Our business may be impacted by shekel exchange rate fluctuations and inflation.

Nearly all of our revenues and a majority of our operating expenses are denominated in shekels. However, in recent years, between one fifth and one quarter of our operating expenses (excluding depreciation and amortization), including a substantial majority of our equipment purchases, were linked to or denominated in non-shekel currencies, mainly the US dollar. These expenses related principally to the acquisition of equipment and devices, where the price paid by us is based mainly on US dollars. In addition, a substantial amount of our capital expenditures are incurred in, or linked to, non-shekel currencies, mainly US dollars. A decline in the value of the shekel against the dollar (or other foreign currencies) could have a further adverse impact on our results, which may be material if we are unable to pass on higher costs to our customers in the Israeli market. Material changes in exchange rates may cause the amounts that we must invest to increase materially in shekel terms.

Since May 2013, we have not entered into any derivative transactions to hedge underlying exposure to foreign currencies. As a matter of policy, we do not enter into transactions of a speculative or trading nature.

Our financial institutions borrowings and repayments of principal and interest on our Series B Notes due 2016, Series C Notes due 2018, Series D Notes due 2021 and Series E Notes due 2017 are currently in shekels, of which Series B and C, and borrowings, at a total principal of NIS 1,014 million as of December 31, 2015 (including current maturities, less offering expenses) are linked to CPI. We may not be able to raise our tariffs in a manner that would fully compensate for any increase in the CPI. Therefore, an increase in the rate of inflation may also have a material adverse impact upon us by increasing our financial expenses without an offsetting increase in revenue. See "ITEM 11 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK" for more information regarding the Company's exposure to exchange rate fluctuations and inflation.

3D.2u We may fail to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which may have a material adverse effect on our operating results and our share price.

Our efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 relating to the evaluation of our internal control over financial reporting require substantial resources, management time and attention. We expect these efforts to require a continued commitment of resources. If we fail to maintain the adequacy of our internal controls, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting. Although our management has concluded that our internal control over financial reporting was effective as of December 31, 2015, we may identify material weaknesses or other disclosable conditions relating to internal control over financial reporting in the future. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and significant effort and expense, and could have a material adverse effect on our operating results and on the market price of our ordinary shares.

3D.2v Based on a decision of the Board of Directors in 2012, dividend distributions are assessed from time to time on the basis of various factors. There can be no assurance that dividends will be declared or, if they are, at what level. No dividends have been distributed since 2013.

In September 2012, the Board of Directors resolved to cancel the then existing dividend policy, which targeted a minimum payout ratio of 80% of annual net income, and to assess dividend distributions (and their scope) from time to time, by reference to, among other things, the Company's cash flow, profitability, debt level, debt coverage ratios and the business environment in general. The level of any distribution of dividends may also be affected by the Company's stated intention to use its cash flow and take other measures to reduce its net debt, as well as by the need to comply with existing financial covenants and to fund any necessary capital expenditures.

Under Israeli law, the payment of dividends is generally made from accumulated retained earnings or retained earnings accrued over a period of the last two years (after deducting prior dividends to the extent not already deducted from retained earnings), and in either case, provided there is no reasonable concern that the dividend will prevent the company from satisfying current or foreseeable obligations as they come due. A dividend distribution that does not meet the above mentioned conditions would be allowed only after receiving court approval and after providing debtors with the opportunity to present to the court any opposition to the dividend distribution.

There is no assurance that we will declare dividend distributions in the future or regarding the level of any dividend distribution which may be declared. No dividends have been distributed since 2013. A distribution of dividends that may result in a significant reduction of our future reserves could prevent us from complying with existing or future financial covenants, or limit our ability to fund capital expenditures. We may also be required to increase our financial indebtedness to obtain needed liquidity, which may not be possible on commercially reasonable terms or at all.

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

3D.3 RISKS RELATED TO OUR PRINCIPAL SHAREHOLDER

3D.3a 30.20% of our issued and outstanding shares and voting rights were held by S.B. Israel Telecom Ltd., our largest shareholder, as of February 15, 2016.

As of February 15, 2016, our largest shareholder, S.B. Israel Telecom Ltd. ("S.B. Israel Telecom"), held approximately 30.20% of our issued and outstanding shares. See "Item 7A.1 PRINCIPAL SHAREHOLDERS". In January 2013, pursuant to a change of control transaction in which S.B. Israel Telecom acquired shares from Scailex Corporation Ltd. ("Scailex") and Leumi Partners Ltd., S.B. Israel Telecom and Scailex signed a shareholders' agreement regarding, among others, the exercise of their voting rights (in which they have agreed to hold a preliminary meeting to coordinate a uniform vote in advance of each shareholders' meeting) and their consent regarding nomination of directors in Partner. On October 13, 2015, S.B. Israel Telecom stated in its Schedule 13D, that in light of the fact that Scailex's and its affiliates' holdings of Partner's share capital had decreased to less than 5%, it considers the shareholders' agreement automatically terminated. See "Item 7A.2 Major Shareholders – Shareholders' Agreement".

As our largest shareholder, S.B. Israel Telecom has the ability to significantly influence our business through its ability to appoint directors serving on our Board of Directors and thereby substantially control all actions that require approval of our Board of Directors. S.B. Israel Telecom is not obligated to provide us with financial support or to exercise its rights as a shareholder in our best interests or in the best interests of our other shareholders and noteholders, and it may engage in activities that conflict with such interests. If the interests of S.B. Israel Telecom conflict with the interests of our other shareholders and noteholders, those shareholders and noteholders could be disadvantaged by the actions that it may pursue. However, S.B. Israel Telecom is subject to the fairness duty of a controlling shareholder under the Israeli Companies Law, and, in the context of related party transactions, to vote for the approval of transactions which are in favor of the Company. See “Item 6C.10 Duties of a Shareholder”.

For more information regarding our major shareholders see “Item 7A Major Shareholders” and 7A.1 “Principal Shareholder”.

ITEM 4. INFORMATION ON THE COMPANY

4A. History and Development of the Company

We were incorporated in Israel under the laws of the State of Israel on September 29, 1997, as Partner Communications Company Ltd. Our products and services were marketed under the “Orange” brand until February 16, 2016, when it was replaced with the “Partner” brand. In addition, since 2011, we have used the 012 Smile brand for certain products and services. Our principal executive offices are located at 8 Amal Street, Afeq Industrial Park, Rosh Ha’ayin 48103, Israel (telephone: +972-54-7814-888). Our website addresses are www.partner.co.il and www.012mobile.co.il. Information contained on our websites does not constitute a part of this annual report. Our authorized U.S. representative is Puglisi and Associates, 850 Library Avenue, Suite 204, Newark, Delaware, 19711 and our agent for service in the United States is CT Corporation, 111 Eighth Avenue, New York, New York 10011.

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

- In April 1998, we received our license to establish and operate a cellular telephone network in Israel.
- In January 1999, we launched full commercial operations with approximately 88% population coverage and established a nationwide distribution.
- In October 1999, we completed our initial public offering of ordinary shares in the form of American Depositary Shares, and received net proceeds of approximately NIS 2,092 million, with the listing of our American Depositary Shares on NASDAQ and the London Stock Exchange. We used part of these net proceeds to repay approximately NIS 1,494 million in indebtedness to our principal shareholders, and the remainder to finance the continued development of our business. (In March 2008, we voluntarily delisted our ADSs from the London Stock Exchange.)
- In August 2000, we completed an offering, registered under the US Securities Act of 1933, as amended, of \$175 million (approximately \$170.5 million after deducting commissions and offering expenses) in 13% unsecured senior subordinated notes due 2010. These notes were redeemed in August 2005.
- In July 2001, we registered our ordinary shares for trading on the Tel Aviv Stock Exchange.
- In December 2001, the Ministry of Communications (“MoC”) awarded us two bands of spectrum: one band of GSM 1800 spectrum and one band of 2100 UMTS third generation spectrum.

- In June 2002, our license was extended until February 2022.
- In December 2004, we commercially launched our 3G network.
- In March 2005, we completed a debt offering, raising NIS 2.0 billion in a public offering in Israel of notes due 2012.
- In April 2005, we repurchased approximately 33.3 million shares from our Israeli founding shareholders, representing approximately 18.1% of our outstanding shares immediately before the repurchase.
- In the third quarter of 2005, our Board of Directors and shareholders approved the distribution of our first cash dividend, in the amount of NIS 0.57 per share, totaling approximately NIS 86.4 million.
- In March 2006, we launched services based on the High Speed Downlink Packet Access (“HSDPA”) technology. HSDPA is a technological enhancement to our 3G services that offers subscribers the ability to access our 3G services at higher speeds. The HSDPA technology has been deployed to support up to 21 Mbps on the downlink and 5.76 Mbps on the uplink.
- In July 2006, we purchased Med-1 I.C.–1 (1999) Ltd.’s fiber-optic transmission business for approximately NIS 71 million, in order to enable us to reduce our transmission costs as well as to provide our business customers with bundled services of transmission of data and voice and fixed-line services.
- In January 2007, we were granted a domestic fixed license by the Ministry of Communications, and in February 2007 we were granted a network termination point license.
- In December 2008 and January 2009, we launched three additional non-cellular business lines: VoB telephony services, ISP services and Web VOD (video on demand).
- In October 2009, Scailex became our principal shareholder through acquiring the entire interest in the Company of our previous controlling shareholder.
- In February 2010, following the District Court’s approval, a total amount of NIS 1.4 billion or approximately NIS 9.04 per share was paid on March 18, 2010, to shareholders and ADS holders of record on March 7, 2010, as a special dividend distribution.
- In March 2011, we acquired all of the outstanding shares of 012 Smile Telecom Ltd., a leading provider of broadband and traditional telecommunications services in Israel. The acquisition of 012 Smile supported our strategy of becoming a leading comprehensive communications group, expanding our range of services and products.
- In January 2013, S.B. Israel Telecom, an affiliate of Saban Capital Group, a private investment firm, based in Los Angeles, California, specializing in the media, entertainment and communications industries, became our principal shareholder through acquiring 30.87% of our issued and outstanding shares, principally from our previous controlling shareholder, Scailex. See “Item 7A Major Shareholders”.
- In November 2013, we entered into a 15-year Network Sharing Agreement with HOT Mobile pursuant to which the parties agreed to create a 50-50 joint venture to operate and develop a cellular network to be shared by both parties (*inter alia*, as a result of pooling both parties’ radio access network infrastructures to create a single radio access network). The Network Sharing Agreement was approved by the Israeli anti-trust authorities, subject to conditions in May 2014, and by the Ministry of Communications in April 2015. See “Item 4B.9 Our Network”.
- In July 2014, we commercially launched limited 4G services in Israel over a frequency band of only 5 MHz in the 1800 spectrum.
- In March 2015, the acting Minister of Communications approved the results of the tender bid process in which we won an additional 5 MHz in the 1800 spectrum (in addition to our 10 MHz frequency bands in the 1800 spectrum).
- In April 2015, following approval by the Minister of Communications, the Network Sharing Agreement with HOT Mobile entered into effect.
- In February 2016, we rebranded our products and services that were previously under the “Orange” brand to be under the new “Partner” brand. See “Item 5A.1c Settlement Agreement with Orange Brand Services Ltd.”

For information on our capital expenditures for the last three financial years, and for the principal capital expenditures currently in progress, see “Item 4B.9 Our Network” and “Item 5B.3 Total Net Financial Debt- *Capital Expenditures*”.

4B. Business Overview

Partner Communications Company Ltd. is a leading Israeli telecommunications company, providing a range of cellular and fixed-line telecommunication services. We offer our subscribers a full range of products and services to address a wide range of communications needs based on advanced technologies currently available as well as a range of competitive tariff plans.

As part of our strategy to be a diversified multi-service communications group, we supply our services through two business segments:

- the cellular segment, our main business, which represents the largest portion of our total revenues. The cellular business segment includes basic cellular telephony services, text messaging, data, airtime, interconnect, roaming, content services and other value added services. Our services are provided over our cellular network including wholesale services to other operators as well as equipment and device sales. See “Item 4B.6a Cellular Services and Products”.

At December 31, 2015, we had approximately 2,718 thousand cellular subscribers, representing an estimated 27% of total Israeli cellular telephone subscribers at that date. As of that date, approximately 79% of our subscriber base (approximately 2,156 thousand subscribers) was represented by subscribers who subscribe to post-paid tariff plans and 21% (approximately 562 thousand subscribers) by subscribers who subscribe to pre-paid tariff plans. (For a definition of “subscriber”, see “Item 3A Selected Financial Data”);

In 2015, as in prior years, we marketed our cellular services mainly under the Orange brand which was licensed to us, as well as under the 012 Mobile brand.

and

- the fixed-line segment, which includes a number of services provided over fixed-line networks including (1) ISP services that provides access to the internet (both infrastructure and ISP services), business information storage in a secured and advanced data center and cloud services. We also provide Wi-Fi networks, including certain value added services; and fixed-line voice communication services provided through VOB, and SIP voice trunks. Since February 2015, we also provide a full internet service including infrastructure, according to the wholesale market reform; (2) transmission services and primary rate interface (“PRI”); and (3) ILD services, outgoing and incoming international telephony, hubbing, roaming and signaling and calling card services. In addition, this segment includes sales of related equipment. See “Item 4B.6b Fixed-line Services and Products” the cellular segment, our main business, which represents the largest portion of our total revenues. The cellular business segment includes basic cellular telephony services, text messaging, data, airtime, interconnect, roaming, content services and other value added services. Our services are provided over our cellular network including wholesale services to other operators as well as equipment and device sales. See “Item 4B.6a Cellular Services and Products”.

In 2015, most of our fixed-line services were marketed under the 012 Smile brand.

In February 2016, we rebranded our products and services that were previously under the “Orange” brand to be under the new “Partner” brand.

Our GSM/UMTS network covered 99% of the Israeli population at year-end 2015. Our LTE network currently covers 80% of the Israeli population, in line with the deployment milestones in our license. We currently operate our GSM network in the 900 MHz and 1800 MHz bands, the UMTS network in the 900 MHz and 2100 MHz band and the LTE network in the 1800 MHz band. Our services provided on our network include standard and enhanced services, as well as value-added services and products. See “Item 4B.6 SERVICES AND PRODUCTS”.

In 2015, Partner was named by Marketest, a multi-discipline research and consulting firm, as the leading company among the large cellular companies in Israel in their “market-test rating for customer experience”.

In 2015, we were named by the Maala organization in their highest platinum plus category for corporate social responsibility for the eighth consecutive year.

4B.1 SPECIAL CHARACTERISTICS OF THE CELLULAR TELECOMMUNICATIONS INDUSTRY IN ISRAEL

We believe that the following special characteristics differentiate the Israeli market from other developed cellular telecommunications markets. In particular, as noted below, on-going, significant changes in regulations applicable to cellular operators have created a complex environment specifically intended to substantially increase competition:

- **High Rate of Unlimited Packages.** Israeli cellular operators provide, among other price-competitive offers, a particularly high rate of unlimited voice and text packages, and various data packages consisting of relatively high volumes of data at competitive prices.
- **Lack of Migration Barriers, High Churn and Recruitment Rate of Subscribers.** The Israeli cellular market to date has limited migration barriers. There is full number portability. Operators are prohibited from selling SIM locked handsets and are no longer able to link the sale of handsets to services. In addition, operators are no longer allowed to charge exit fees from residential or small business customers or offer better tariff plans to new customers. As a result of this, as well as the entrance of new competitors, there is a high rate of churn and recruitment rate of subscribers in the Israeli cellular market.
- **Cellular Telephone Market Saturation.** Since 1994, the market has sustained a rapid annual rate of growth from a 2.6% penetration rate at year-end 1994 to an estimated penetration rate in Israel at December 31, 2015, of 124%, representing approximately 10.2 million subscribers out of an estimated population of approximately 8.5 million. The total number of estimated cellular telephone subscribers includes dormant subscribers and subscribers to multiple networks as well as other subscribers who are not included in the Israeli population figures, such as Palestinians, visitors, and foreign workers.
- **Entrance of Additional Operators.** The regulatory changes in the telecommunications industry, particularly with respect to additional entrants that include cellular operators and MVNOs, have created a high level of competition in the industry.
- **Favorable Geography.** Israel covers an area of approximately 8,000 square miles (20,700 square kilometers) and its population tends to be centered in a small number of densely populated areas. In addition, the terrain of Israel is relatively flat. These factors facilitate the roll out, maintenance and subsequent upgrades of a cellular network in a cost effective manner.
- **High Penetration of Smartphones.** Published market data shows that the relatively young Israeli population has a propensity to accept and use high technology products. The level of penetration of smartphones in the Israeli market is also estimated to be one of the highest in the world.

4B.2 SPECIAL CHARACTERISTICS OF THE FIXED-LINE TELECOMMUNICATIONS INDUSTRY IN ISRAEL

Bezeq and the HOT Telecom are the only telecommunications services providers with their own nationwide fixed-line infrastructure. IBC, which has a licence to provide fixed-line services nationwide, has started a limited deployment of its fiber-based fixed-line services. Partner and Cellcom have fiber optic lines in certain areas nationwide.

Fixed-line telephony Services

Bezeq is the incumbent provider of fixed-line telephony services in Israel and holds more than 60% of the market. The remaining portion of the market is divided between HOT Telecom as the next largest provider and Cellcom and Partner.

Broadband and Internet services

The fixed internet access market used to be divided into two tiers of services: infrastructure services and ISP service. Since February 2015, with the launch of the wholesale market reform, ISPs have begun to market bundled packages which include both (Bezeq's) infrastructure and ISP components

The Ministry of Communications declared its intention to provide an incentive for Bezeq to implement the wholesale market by reducing the regulations requiring Bezeq to maintain a "structural separation" between its fixed-line and mobile telecommunications operations. See "Item 3D.1b The MoC has failed to enforce its fixed-line wholesale market reforms (originally intended to allow telecommunication providers, such as Partner, that do not have their own fixed-line infrastructure to include the infrastructure component as part of their bundled service offerings). The MoC may also roll back such reforms. Such actions may negatively affect our business and results of operations. In addition, if the structural separation provisions (which apply to Bezeq and HOT Telecom) are removed before we have established ourselves in the fixed-line market, this would negatively affect our business and results of operations."

In August 2013, the Israel Broadband Company (IBC), was granted licenses after winning the tender published by the State of Israel for the election of a minority shareholder in the Israel Electric Corporation telecommunication project. IBC introduced a new business model which enables it to reach the retail market through the services of ISPs. IBC has launched a web portal in which it offers ISP services to end users. ISPs which reach agreements with IBC are listed on the web portal. Currently only niche ISPs have reached agreements with IBC. For further details see "Item 4B.13d - x Israel Broadband Company".

Internet access is currently provided by three major Internet service providers, or ISPs: Netvision from the Cellcom Group, Bezeq International and Partner, as well as some other niche players. All three major providers are also suppliers of ILD services (see below).

Until 2011, the Israeli ISPs were connected to the World Wide Web through an underwater communications cable owned and operated by Med Nautilus, a subsidiary of Telecom Italia SpA. Since January 2012, Bezeq International has its own underwater communications cable, and in February 2012, the Tamares Group's underwater communications cable commenced operations. These additional underwater cables have increased the effective bandwidth of international data connectivity and reduce costs for ISPs.

International long distance services

ILD services in Israel have been open for competition since December 1996. There are currently eight players in this market. The three major players are: Partner, through 012 Smile, Bezeq International and Cellcom through Netvision, who are estimated to hold together approximately 80% of the market. The other players are Xfone and Telzar International Communications Services Ltd., which commenced operations in 2011, and Hashikma N.G.N International Telecommunications 015 Ltd, Golan Telecom and HOT Mobile, that commenced operations in 2012. Beginning in 2012, as part of the unlimited packages that the cellular companies began offering their customers, most of them, including the Company, included ILD services to certain destinations in these packages. Proposed regulations intend, *inter alia*, to allow all general telecommunications licensees (including MVNOs) to provide international call services to international destinations included in their subscribers' tariff plans and only calls to destinations not included in the subscriber's plans would be routed through ILD providers. See "Item 4B.13d - viii Hearings and Examinations". Such regulations may alter the ILD market structure in Israel and decrease the volume of international calls routed through ILD providers.

4B.3 OUR STRATEGY

Partner's goal is to be a comprehensive telecommunications company that offers an entire range of telecommunication solutions to a variety of customers. The principle elements of our business strategy are as follows:

- **Variety of cellular and wireless solutions.** We offer our customers a wide range of cellular and fixed-line services, as well as ILD services, infrastructure and ISP services (subject to the removal of obstacles in the wholesale market reform) and we are examining entering into the multi-channel television market through OTT technology. We operate to expand the digital service interfaces that allow availability and accessibility for the different sectors of the population in the Company's various service channels, including through selling equipment and providing digital interfaces. We intend to provide the services and technology which will enable our customers to benefit from the best services and technologies in any place, any time and from any device (AAA). The worldwide growth trend of data consumption provides us with new opportunities to offer new value propositions and to implement segment-oriented pricing strategies for our customers.
- **Implementation of the new "Partner" brand.** In February 2016, we announced and launched a new brand that received nationwide exposure through the media. The new brand "Partner" replaces the Orange brand which has been associated with the Company since our commercial launch. We strive to implement the new brand amongst our stakeholders, customers, employees, suppliers, partners, the community and the entire public so that it will be identified with innovation and quality customer service we provide.
- **Drive Customer Satisfaction through Customer Centric Strategy.** We have always believed that customer satisfaction is a key concern and strive to listen to our diverse customers' needs, internalize and respond accordingly including by offering tailored packages to the various sectors. We provide our customers with a high level of accessible customer service at our service centers, call centers and digital services. We offer our business customers services including: network and data infrastructures, advanced information security solutions, integration solutions, designated services for customers with multiple branches and commercial networks, business information storage in a secured and advanced data center and cloud services.
- **We seek to remain a central and leading player in the retail sale of handsets and accessories.** We continuously adapt ourselves to the changing needs of our customers, while following new and innovative equipment and accessory developments and changes in the telecommunications market.
- **Technical Leadership and Innovation.** We continue to lead the telecommunications market with advanced and innovative technology and strive always to be at the technological edge. We were the first cellular company in Israel to launch an LTE (4G) network (in July 2014). Upon allocation of additional 1800 frequencies, following a 4G tender held in January 2015, and the Network Sharing Agreement with HOT Mobile, which allows us to share frequencies, we are able to provide our customers with a full 4G experience, among others, due to the widest geographical deployment compared to our competitors. We have the widest 4G coverage compared to other cellular operators as a result of having the largest deployment of 4G cell sites, and we intend, under certain circumstances to operate to expand LTE coverage and quality in order to maintain our technical leadership in the market.

- **To instill the company culture amongst our employees.** We believe that our employees are the Company's main and most significant asset and that each individual should be a key advocate of the Company's services and products. The successful execution of the Company's strategy depends on the motivation, loyalty and capabilities of our employees. We listen to the Company's employees and strive to constantly learn and improve in order to provide a working environment that allows employees to express their capabilities and empower themselves. We allocate resources for the training of our employees in order to meet the continuous and changing requirements of our business.

4B.4 COMPETITIVE STRENGTHS

We believe that the following competitive strengths will assist us in achieving our mission and implementing our strategies:

- **High Quality Network.** We believe that as a result of our investments in upgrading our network, we have the most advanced cellular telecommunications network in Israel. Furthermore, through the joint venture created under the Network Sharing Agreement with HOT Mobile, we have combined our respective base cellular stations and thus enabled the network to gain denser site grids offering improved coverage and capacity, and thus better quality of service in terms of accessibility, retainability and quality of sound. At the same time, the joint venture created under the Network Sharing Agreement with HOT Mobile is expected to increase network efficiency by reducing the total number of network sites, while improving network coverage and capacity and introducing new technology.
- **Customer Centric Approach.** Since we believe that customer satisfaction is a key concern, we provide a quality customer experience through quick, simple and reliable handling of customer needs and interactions, which we have achieved through investments in technology, offering tailored packages to the various sectors, launching a new portfolio of smartphones and tablets, and new communications products as well as training of customer service skills.
- **Growing Variety of Digital Platforms.** We offer our customers a variety of self-service options and are planning, as a comprehensive telecommunications company that offers an entire range of telecommunication solutions, to continue expanding our self-service options and other tools as part of our digital transformation.
- **Variety of communication products.** We believe that our fixed-line telephony, ISP services, transmission services and ILD services, strengthen our position in the communications market. Offering a variety of combined mobile and fixed-line products and services will enable us to better compete with the bundled services of other players, increase customer loyalty, and serve as an additional source of revenue.
- **Strong and Motivated Management Team.** We have been able to attract a number of Israeli senior managers from the telecommunications, high-tech and consumer products industries. Our management team is experienced and highly respected and, we believe, well-positioned to manage and lead the Company.

4B.5 MARKETING AND BRAND

We continuously pursue an advertising presence in the media in order to maintain exposure for our brands and advanced technologies and promote our services to various segments of the Israeli population. We advertise our network capabilities, services and equipment in several languages. In addition to traditional media, we also promote our brands on digital and social platforms.

In February 2016, we launched a new brand named "Partner", which replaced the "Orange" brand we have used since our inception. See "Item 3D.2q The recent rebranding of most of our goods and services may have a negative impact on our business due principally to lower brand recognition by our customers." and "Item 5A.1c Settlement Agreement with Orange Brand Services Ltd." We believe that "Partner" is a highly attractive brand name for a communications group. The change of brand name offers an excellent opportunity to reinvigorate our market presence with a new brand name which is simple and innovative. The rebranding also supports our business strategy of providing our customers with a comprehensive internet solution, any time, any place, on any device and will provide us with the means to better position the Company in the Israeli telecommunications market.

While we have changed our brand name, we continue to benefit from our advanced infrastructure as well as additional capabilities which were established through years of investments. We believe that the combination of the new brand alongside our assets emphasize to the consumer the fact that we are an innovative Israeli company.

Our marketing strategy emphasizes value for money, network quality, quality of customer service and innovation. We market some of our services under the 012 Smile and 012 Mobile brands however we have decided to cease use of the 012 Smile brand in 2017.

4B.6 SERVICES AND PRODUCTS

Our principal business, which provided approximately 80% of our revenues in 2015 (excluding inter-segment revenues) was derived from our cellular segment. Approximately 20% of our revenues (excluding inter-segment revenues) were generated from our fixed-line segment.

Our goal is to provide quality mobile broadband and fixed-line network and to offer a wide range of products, services and content to the cellular and fixed-line customers.

4B.6a Cellular Services and Products

Basic Cellular Services

Our main business is cellular telephony – provided on our 2G, 3G and 4G networks. Our basic offer includes cellular telephony services, text messaging, data, airtime, interconnect, roaming, international dialing, voice mail, call waiting, call forwarding, caller identification, conference calling, short message services ("SMS"), intelligent network services (such as VPN and funtone), fax transmission, mobile broadband at speeds of up to 150 Mbps¹ and other services as a mobile portal of content services and applications. Our services are provided over our cellular network including wholesale services to other operators as well as equipment and device sales.

Due to the continuous penetration of smartphones and combined service price plans providing considerable volumes of unlimited packages of voice calls and text messages and various limited packages of data consumption on the cellular network, the Company expects that purchases of cellular data packages will continue to increase during the upcoming year.

Value- Added Services

In addition to standard mobile value-added services, we offer a variety of value-added services including among others, various content services, 4G TV video content, a variety of television and music applications, backup and synchronizing services, and vehicle fleet management. These services and others are important to our business as they create differentiating factors and increase customer usage, satisfaction and retention. We continuously track all major market developments regarding value-added network services, and we intend to implement and offer those services that are likely to be popular with customers and which would add value to our business.

¹ The cellular data transmission speed is not constant and is dependent on various factors including coverage, network availability, the chosen connectivity technology, the handset, and cellular, internet and other telecommunication networks.

International Roaming

We offer our customers roaming services abroad, which allows a mobile phone subscriber to place and to receive calls while in the coverage area of a network to which he does not subscribe and to be billed for such service by his home network. We offer our customers roaming packages which allow our customers to benefit from attractive rates in over 100 destinations. We offer data only packages as well as packages that combine calls, data and SMS. The Ministry of Communications may introduce new regulations that would limit our revenues from roaming services. See “Item 4B.13d - viii Hearings and Examinations”.

At December 31, 2015, we had commercial roaming relationships with 472 operators in 187 countries or jurisdictions, 308 3G roaming agreements in 139 countries and 49 4G roaming agreements in 39 countries. Creating roaming relationships with multiple operators in each country increases potential incoming roaming revenue for us and gives our subscribers more choice in coverage, services and prices in that country.

The 3G roaming agreements enable our 3G roamers to initiate video calls, high speed data and video and audio content while abroad.

Although GSM (2G), UMTS (3G) and LTE (4G) are standardized, the frequency allocation per each technology varies from one country to another. Currently we operate our GSM services on the 900 MHz and 1800 MHz bands, UMTS on 900 MHz and 2100 MHz bands and LTE on 1800 MHz bands. All 4G handsets which we sell, support all the above listed technologies and bands while 3G handsets support the above listed bands for GSM and UMTS. While roaming, there is a possibility that a subscriber's handset will not support all the technologies due to lack of support of a country's specific frequency bands; however this is rare in GSM and UMTS, due to technology maturity. Standardization bodies allow for more than 27 different LTE bands and since LTE in many countries utilizes reframed GSM and UMTS bands, there may be cases where handsets do not support the frequency allocated for LTE in specific countries.

Cellular Equipment and Devices

Equipment and devices sales in the cellular segment, include sales of cellular handsets, cellular modems, tablets, laptops (including both WI-FI-only devices and devices with 3G-HSPA or 4G LTE embedded data cards) and related accessories, as well as handset maintenance and spare parts through the Company's repair services and labs. We also sell a variety of digital audio visual equipment including televisions, digital cameras, games consoles, media streamers, earphones and other related equipment.

4B.6b Fixed-line Services and Products

Basic Fixed-Line Services

We offer fixed-line services that include ISP services as well as home and business Wi-Fi networks, ILD services, transmission services and VoB telephony services (including SIP services).

- *ISP services.* As an internet service provider, we offer our customers ISP services that include email accounts, Wi-Fi networking as well as additional value added services such as anti-virus and anti-spam filtering, and we offer a bundled package that includes infrastructure and ISP services as part of the wholesale market reform. Furthermore, we offer our business customers additional tailored value services that combine an entire array of solutions including: network and data infrastructures, advanced information security solutions, integration solutions, designated services for customers with multiple branches and commercial networks, business information storage in a secured and advanced data center and cloud services.
- *ILD services.* As an international long distance provider, we offer our residential and business customers international telephony services including direct international dialing services, international and domestic pre-paid and post-paid calling cards, and call-back services. Most of the pre-paid calling cards are sold to foreign workers in Israel. In addition, we offer our business customers international toll-free numbers that offers fixed rates on calls from anywhere in the world. As an international long distance provider, we also provide hubbing traffic routing between network operators for termination of long distance calls outside of Israel.

- *Transmission.* We provide fixed-line transmission and data capacity services. Our fixed-line capacity also includes capacity which we lease from other fixed-line telecommunications service providers as well as inland fiber optic infrastructure and complimentary micro wave radio links. The services we offer include primarily connectivity services, on an SDH (Synchronous Digital Hierarchy) transmission network, by which we provide high quality, dedicated, point-to-point connection for business customers and telecommunications providers, as well as fixed-line services to business customers.
- *VoB and PRI.* The VOB service allows business and residential customers to make and receive telephone calls over the Internet through an internet connection. The PRI is a landline network service connecting organizational switchboards to Partner's network and allows business customers to make multiple calls simultaneously. We offer traditional voice services to residential and business customers throughout Israel.

Value- Added Services

In addition to standard fixed-line value-added services, we offer a variety of value-added services that include defense and security services for the computer and e-mail that include among others, parental monitoring control, firewall, web hosting, anti-virus and site filtering based on the customer's restriction definition, and other value added internet services including hosting, cloud-based hosted services and virtual switchboard. In 2015, we launched a new and upgraded data center that provides customers with business solutions on a secure site including hosting services (storage and maintenance of physical and virtual servers, website hosting, information storage and disaster recovery site) management communication services, and integrated services.

Fixed Line Equipment and Devices

Equipment and devices sales in the fixed line segment include sale of landline phones, modems, domestic routers, servers, smartboxes and related equipment, media streamers, WI-FI-only tablets and other telecommunications and audio-visual devices and accessories to fixed-line segment customers.

4B.6c Tariff Plans

As of December 31, 2015, approximately 79% of our cellular subscriber base (approximately 2,156 thousand subscribers) subscribed to post-paid tariff plans, and 21% (approximately 562 thousand subscribers) subscribed to pre-paid tariff plans.

Business cellular tariff plans. Our post-paid cellular business tariff plans offer features attractive to business users such as bundles including unlimited amounts of call minutes and SMS (subject to reasonable use) as well as browsing packages; bundles with fixed amounts of call minutes and SMS and browsing packages; tariff plans with fixed tariffs for airtime usage without adding the interconnect charges imposed by other cellular and fixed-line providers for calls made by our subscribers that terminate on third party networks; and providing discounts for calls to designated numbers within a subscriber's calling circle. Some of our business cellular tariff plans for large business customers with over 100 subscribers include commitment periods of up to 36 months.

Private customer cellular tariff plans. Most of our post-paid cellular tariff plans for private customers are also bundles including unlimited amounts of call minutes and SMS (subject to reasonable use) as well as browsing packages, or bundles with fixed amounts of call minutes and SMS and browsing packages. The elements of our cellular tariff plans for post-paid private customers are packaged and marketed in various ways to create tariff packages attractive to target markets, including families, military personnel, youth, students, family members of business customers and other sectors. Since February 2011, our private customer subscriber agreements do not have any commitment periods.

Since 2012, the Company also markets cellular tariff plans under an alternative brand, "012 Mobile", based on the 012 Smile brand. Under this brand, the Company offers plans mainly under a digital self-service model through a dedicated website (including web-chat with customer representatives) at competitive prices. These tariff plans were launched in order to compete with offers of new operators launched in 2012.

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

Fixed-line tariff plans. For our Fixed-Line Services, we have a wide range of diverse plans to meet the needs of the various sub-markets-ISP, ILD, transmission and VOB & PRI. We have also launched an unlimited plan for our VoB packages. In the ILD services market we have tariff plans based on call destinations and level of use. Our Internet Service prices and our wholesale infrastructure services prices are based on bandwidth speed. We offer a variety of internet solutions for home and business use according to each customer's needs.

4B.7 SALES AND DISTRIBUTION

4B.7a Customer Care

We apply a multi-channel approach to target various market segments and to coordinate our cellular and fixed-line sales strategy for both our business as well as private customers. Our customer support and service provides several channels for our customers: call centers, walk-in centers and self-service support, which include web-based services, mobile application, Interactive Voice Response ("IVR"), and automated SMS.

Call Centers. Guided by our aim to provide high quality service, our call-center services are divided into several sub-centers including business, private and pre-paid for cellular and fixed-line services, and specialized support and services (finance, network, international roaming and data transfer related issues). The call center services are provided in several languages and also provide chat and SMS services through the Company's websites.

Walk-in Centers. We currently operate 30 service and sales centers across Israel. These centers provide a face-to-face, uniformly designed, contact channel and offer all services that we provide to customers: sales, handset upgrade, handset maintenance, tablet sales, fixed-line services (such as VOB and ISP) and other services (such as finance, rate-plan changes and subscription to new services) as well as accessories sales. Lease agreements for our retail stores and service centers are for periods of two to ten years. We have the option to extend the lease agreements for different periods including the initial lease period. See also Note 19 to the consolidated financial statements.

Self-Service. We provide our cellular customers with various self-service channels, such as IVR, web-based services, services via SMS, services via mobile and services via smartphone applications. The services provided through these channels include general and specific information, tariff plans, account balance, billing-related information and roaming tariffs. They also provide customers with information regarding trouble shooting and handset operation, and enable customers to activate services and to download content as well as to purchase various cellular services and update tariff plans.

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

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

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

4B.7b Sales and Distribution Channels

We distribute our services and products primarily through direct sales channels and indirect sales channels.

4B.7b - i Direct Sales Channels

Sales and Service Centers: Our walk-in centers in stores and malls also serve as sales centers. The face-to-face contact enables customers to get the “touch and feel” of new handsets, tablets, accessories and services demonstrated by our representatives. During 2015, we established a dozen stands in cooperation with Apple called “CEP” –channel excellence program, in which we demonstrate Apple products to customers. As of December 31, 2015, we are the only cellular operator in Israel that has this type of agreement with Apple.

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

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

Our sales force undergoes regular training to improve their skills in selling advanced solutions such as cellular data, intranet extension and connectivity, virtual private networks, location based services, m2m (machine to machine) services, and other value-added services that appeal to corporate customers.

In addition, as of December 31, 2015, we have 22 Partner stands in shopping centers throughout the country, as well as three stores that specialize in sales and handset upgrades.

4B.7b - ii Indirect Sales Channels

We have agreements with many traditional dealers that provide over 60 points of sale, selling a range of our products. The private dealer network is an important distribution channel because of its ability to attract existing cellular users to our network. Our dealer network focuses primarily on sales to individual customers and, to a lesser extent, small business customers. These dealers specialize in sales for post-paid customers and handset and tablet sales.

In addition we have agreements with prepaid distributors that specialize in sales for pre-paid customers and distribution of pre-paid plans to sub-dealers.

We also have specific dealers that target different segments of the Israeli population with the appropriate style, language and locations. We provide regular training to employees of our dealers to update them on our products and services. Our managers visit dealers on a regular basis to provide information and training, answer questions and solve any problems that may arise. We pay our dealers commissions; however, dealers are not entitled to commissions for any customers that terminate their service within 90 days of activation.

4B.7b - iii Online Sales Channels

Our cellular and fixed-line services are also available to be purchased online. We also manage an online service for the purchase of handsets and other equipment that we sell.

4B.8 POST-PAID CUSTOMER CONTRACTS AND CREDIT POLICY

Since 2011, our standard subscriber agreements with most of our private subscribers do not include commitment periods. Some of our business subscribers that have more than 100 subscribers enter into an agreement with a commitment period of up to 36 months (generally including a commitment to pay the monthly charge for the full 36 months). Subscribers are billed monthly for airtime charges and charges per services. Roaming access for direct debit subscribers is subject to credit scoring by our credit supervisors with the assistance of outside credit agencies and may require additional guarantees or deposits.

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

Most of our subscribers pay for equipment devices in installment plans that include between 12 and 36 monthly payments, which are charged directly to their credit card or to their monthly bill. Where the subscriber opts to pay the installment payments via his monthly bill, the outstanding installment payments are not secured. Subscribers acquiring more than a certain number of device sales are subject to a credit scoring review performed by Partner's credit supervisors with the assistance of outside credit agencies.

Sales of equipment, and in particular tablets, audio-visual devices, accessories and other related equipment accelerated and have remained strong in 2015, in part due to our offering customers the possibility of purchasing some of the equipment on the basis of long-term installment plans. However, we may need to curtail the use of long-term installment plans, due to their downward pressure on cash flow, which may reduce our sales of equipment. See "Item 5D.2 Outlook".

4B.9 OUR NETWORK

We have built an extensive, resilient and advanced network system in Israel, allowing us to offer our services with extensive coverage and consistent high quality. During the years ended December 31, 2014 and 2015, we made capital expenditures of NIS 256 million and NIS 137 million (\$35 million), respectively, in our network infrastructure, including optic fibers.

4B.9a Overview

Our network is a converged fixed and mobile telecommunications network. For mobile services we built a multi generation (2G, 3G & 4G) wireless network, which offers full interactive multimedia capabilities. This technology brings wire-free networks significantly closer to the capabilities of fixed-line networks. Improvements in coding and data compression technology provide better voice quality and more reliable data transmission. UMTS is the global standard adopted for the implementation of third generation wireless telecommunications capable of data rates of up to 42 Mbps in the down-link and is the 3G technology we use. HSPA is a technological enhancement to our 3G services that offers subscribers the ability to access our 3G services at higher speeds for downloading (HSDPA) and uploading (HSUPA) data. LTE is the newly introduced, most advanced mobile network technology which is currently available in more than half of the macro base stations. Currently our LTE network is based on the existing spectrum of 20 MHz and can support up to 150Mbps in the downlink and up to 50Mbps in the uplink.

In 2015, we continued to deploy and introduce 4G services, utilizing part of our existing 1800 MHz spectrum (that was used for the 2G network), while continuing to expand our 3G and HSPA business in Israel. To meet these goals, we are implementing (directly or through our joint venture entity, PHI) a strategic network upgrade project, in which our network radio and core elements are being upgraded to our vendors' most advanced products range. We have also expanded our transmission network to support the demand for high data rates, and we concluded the introduction of a third radio carrier for HSPA services, utilizing part of our existing 900 MHz spectrum.

Cellular Network Sharing Agreement. In November 2013, we entered into a 15-year Network Sharing Agreement with HOT Mobile that was approved by the Antitrust Authority Commissioner in May 2014 and by the Ministry of Communications in April 2015. Pursuant to the agreement, the parties created a 50-50 joint venture in the form of a limited partnership under the name P.H.I. Networks (2015) Limited Partnership ("PHI"), the purpose of which is to operate and develop a radio access network to be shared by both parties starting with a pooling of both parties' radio access network infrastructures to create a single shared pooled radio access network ("Shared Network"). The parties have also established a 50-50 company limited by shares under the name Net 4 P.H.I Ltd., to be the general partner of the limited partnership. In August 2015, we were allocated a frequency bandwidth of 5MHz in the 1800MHz spectrum as a result of the 4G frequencies tender conducted by the Ministry of Communications in January 2015. PHI started to operate in August 2015, at which time each of Partner and Hot Mobile transferred to PHI certain employees who were previously engaged in their respective radio operations.

One of the main purposes of the joint venture is to seek to improve network efficiency by reducing the number of network sites, while improving network coverage and capacity and introducing new technology. The expected results from PHI's operations are that the Shared Network will optimize operating costs, including required maintenance and reduce environmental impact.

Both companies would continue to compete and differentiate their services and be responsible for providing cellular telecommunication services to its own customers, including the provision of customer service, value-added services, marketing and sales. Each company will continue to retain and operate its own core network.

According to the Network Sharing Agreement, HOT Mobile will pay Partner a onetime amount of NIS 250 million ("Lump Sum"), by the beginning of year 2017, unless one of the parties exercises an option granted to it under the Network Sharing Agreement pursuant to which a portion of the Lump Sum will be paid earlier ("Option"). Following the earlier of January 1, 2017, or the date of payment of such a portion of the Lump Sum upon exercise of the Option, each party will bear half of the capital expenditures relating to the Shared Network. The bearing of the operating costs of the Shared Network will be according to a pre-determined mechanism, according to which one half of the operating costs will be shared equally by the parties, and one half will be divided according to the relative volume of traffic of each party in the Shared Network ("Capex-Opex Mechanism"). See also "Item 5A.1d Network Sharing Agreement with HOT Mobile".

In May 2014, the Antitrust Commissioner approved the Network Sharing Agreement, subject to conditions, the most important of which are set forth below:

- Prohibition on exchange of information that is not required for the activities of PHI under the Restrictive Trade Law. See 4B.13d - xi Anti-Trust Regulation";
- Limitations with respect to serving as an officer or employee in either Partner or Hot Mobile concurrent with serving as an officer or employee of PHI and certain cooling off periods were set in case of transition of officers and employees from PHI to the companies. However, this should not prevent PHI from employing employees or officers, who are currently serving as employees or officers in the companies and does not prevent an officer in Partner or Hot Mobile from serving as a director in PHI's general partner's board of directors;
- Rules regarding the administration and documentation of the meetings of PHI organs were set;
- Either of the companies shall be allowed, at any time and at its sole discretion, to engage in an agreement with a third party for the provision of cellular telecommunications services that involves use of the core network of that company. All of the rights and obligations deriving from such service agreement shall apply solely to that company and PHI shall not be a party to such service agreement and will not be entitled to payments payable pursuant to it;
- After a period of seven years from the date of the Commissioner's approval or after a period of six years from the issue date of all the approvals of the Ministry of Communications, whichever is earlier, the Commissioner shall be allowed to notify the companies of the cancellation of his resolution, if he has concluded that the establishment of PHI, its existence or operations are liable to be substantively detrimental to the competition ("Cancellation Notice"). If a Cancellation Notice is issued, a graduated layout of dismantling PHI activity was set in the Commissioner resolution, as follows:
 - a. at the end of two years after the issuance of the Cancellation Notice, PHI shall cease all activity apart from the management, maintenance and operation of the passive elements of the network.
 - b. at the end of five years after the issuance of the Cancellation Notice, the companies shall dismantle PHI and shall separate their assets fully and entirely.

In April 2015, the Ministry of Communications also resolved to approve the Network Sharing Agreement.

In November 2013, the Company and HOT Mobile also entered into a separate Right of Use agreement which is valid until January 4, 2017 ("RoU Agreement"), under which the Company provides services to HOT Mobile, in the form of a right of use of its cellular network. According to the RoU Agreement, HOT Mobile pays the Company fixed base payments with additional variable payments based, among other things, on traffic consumption exceeding a defined threshold.

In February 2016, HOT Mobile exercised its option under the Network Sharing Agreement to advance the payment date of the Lump Sum and therefore capital expenditures and operating costs shall be shared according to the Capex-Opex Mechanisms described above, from April 2016. As of this date, HOT Mobile shall also cease paying the payments payable under the RoU Agreement. See also "Item 5A.1d Network Sharing Agreement with HOT Mobile".

4B.9b Infrastructure

As of December 31, 2015, our network consists of the following main elements:

- Our radio access network domain consist of 2,000 macro GSM base transceiver stations, 72 micro GSM base transceiver stations and 286 indoor GSM transceiver stations, all linked to 7 base station controllers.
- 2,049 macro UMTS base transceiver base stations (eNodesBs), 42 micro UMTS base transceiver stations and 730 indoor UMTS transceiver stations, all linked to 21 radio network controllers.
- 1,289 macro LTE base transceiver base stations (eNodesBs), 6 micro LTE base transceiver stations and 106 indoor LTE transceiver stations.

Our core network domain consisted of 4 mobile switching centers, 3 media gateways, 2 service GPRS support node/mobility management entity and 2 gateway GPRS support node/evolved packet gateway.

The base transceiver stations, the mobile switching centers and the radio network controllers are interconnected by 7,500 transmission links for voice services, and a dedicated IP radio access network and a mobile packet backbone network (IP-RAN, MPBN) for data traffic.

Since January 2008, Ericsson is our sole radio and core network equipment supplier. See "Item 4B.9g Suppliers".

Our fixed-line network domain consists of circuit-switched and Voice over Internet Protocol (VoIP) platforms. Ericsson, Sonus, Broadsoft and ACME Packet supplies our VoIP solution, whereas the circuits-switched services utilize the mobile switching center platforms alongside Sonus's switches. The International Long Distance network domain consists of Dialogic ILD Switch, together with NSN's Signaling Transit Point.

In addition, our network is interconnected with two public switched telephone companies, Bezeq and HOT Telecom, in several locations across Israel. Our network is also connected to all of the cellular networks, all the Israeli international operators, the fixed-line telephone network of the Palestine Telecommunication Co. Ltd. ("Paltel"), and the cellular network of Wataniya Palestine Mobile Telecommunication Company ("Wataniya"), and indirectly to the cellular network of Palestine Cellular Communications Ltd. ("Jawwal"). Our transmission network is made up mainly by our own microwave links and fiber optic infrastructure, while for sites that are unreachable with our own transmission, we lease lines from Bezeq and other operators. Currently approximately 30% of our transmission network consists of leased lines. Our fiber-optic and microwave transmission network enables us to reduce our transmission costs as well as to provide our business customers with bundled services of data and voice transmission and fixed-line services. Currently, our transmission network has more than 16 hundred kilometers of fiber optics and more than 13 hundred microwave links.

Our radio networks covered 99% of the Israeli population at year-end 2015. We are continuing to expand and improve the coverage, capacity and quality of our UMTS network.

4B.9c Network Design

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

With these quality parameters in mind, we rolled out our UMTS/HSPA network starting in 2004, which shares locations with the GSM sites. In December 2007, we signed an agreement with LM Ericsson Israel Ltd. (Ericsson”) for the replacement of third party 3G radio equipment existing in our network, and in October 2010, we signed an agreement with Ericsson for the upgrade of our existing fixed-mobile network and the deployment of our fourth generation network. Ericsson is currently the main supplier of our network. See “Item 4B.9g Suppliers”.

We use monitoring probes and counters to ensure network quality.

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

In our Fixed-Line business we offer telephony lines using VoB technology, SIP voice trunks, PRI, Internet Services, data transmission and ILD services targeting households and business customers in the Israeli market. These services are provided over third parties’ existing network infrastructure as well as our own partially country covering infrastructure. In order to provide the Fixed-line Services in the residential market, we developed a home gateway box (smartbox), that provides the customer with a setup of a home network Wi-Fi based on the protocol 802.11n, Voice FXS and DECT supported phones, and built-in firewall. This solution enables us to provide services to our customers such as call “hijack” which allows customers to retrieve incoming mobile line calls on their fixed-line and vice-versa, improved email accounts, anti-virus and site filtering based on the customer’s restriction definition.

4B.9d Spectrum Allocation and Capacity

Spectrum availability is limited and is allocated by the Ministry of Communications through a licensing process. Pursuant to the terms of our license and subsequent allocations, we were allocated 2x10.4 MHz in the 900 MHz frequency band, of which 2 x 2.4 MHz are shared with Jawwal which operates in the West Bank and the Gaza Strip and an additional 2 x 2.4 MHz of Jawwal’s spectrum is partially available to us.

We were also allocated two additional bands of spectrum: 2 x 10 MHz of UMTS/HSDPA third generation in the 2100 MHz frequency band. We operate GSM 900 MHz band base transceiver stations that enhance the capacity of our network’s quality. In May 2012, we shifted 5MHz of our 900MHz spectrum from the 2G GSM network to the 3G HSPA+ network. In July 2014, we shifted 10MHz of our 1800MHz spectrum from the 2G GSM network to the 4G LTE network. In March 2015, the Minister of Communications approved the results of the tender bid process in which we won an additional 5 MHz in the 1800 spectrum. Hot Mobile was also awarded two bandwidths of 5 MHz of frequencies in the 1800 band, both of which are expected to be used for the joint venture created by the companies. Now that we have been allocated these frequencies, and have successfully refarmed our existing frequency bands and successfully implemented the Network Sharing Agreement with HOT Mobile, our total spectrum available for 4G is 20 MHz, which allows us to offer full 4G services. See “Item 4B.9a Overview – *Cellular Network Sharing Agreement*”.

For a discussion of the risks associated with regulatory developments in spectrum allocation, see “Item 3D.1g We may have less access to spectrum for fourth generation (4G) services than some of our competitors as a result of network sharing agreements. We also may be required to terminate the use of certain spectrum or to share with another operator some of the spectrum we are currently using on an exclusive basis. If these developments occur, they may adversely affect our network quality and capacity as well as our ability to provide our customers with competitive advanced technology services, which may adversely affect our results of operations.”

4B.9e Enabling Systems

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

4B.9f Site Procurement

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

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

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

See “Item 4B.13g Network Site Permits” for a description of the approvals that are required for the erection and operation of network sites and the requirement to provide indemnification undertakings to local committees.

4B.9g Suppliers

Suppliers for our cellular network. For a number of years, we purchased our network equipment, such as switching equipment, base station controllers and base transceiver stations and network software, from Ericsson and Nokia. Starting in January 2008, we purchase all our UMTS network equipment from Ericsson, and in 2010 we entered into an agreement with Ericsson, for the upgrade of our existing cellular networks and the deployment of our fourth generation network. The initial term of the inclusive agreement with Ericsson ended on December 31, 2014. Following the expiration of the initial term, we extended the initial period for the provision of support and maintenance services, first by an additional period of one year (that ended on December 31, 2015) and then, by an additional period of one year ending on December 31, 2016. We have an option to further extend the agreement by eight additional periods of one year each. If we wish to purchase deliverables or equipment from Ericsson beyond the scope of the agreement, we will have to reach an agreement with Ericsson on the terms, including purchase prices. As a result, as a practical matter, Ericsson has gradually become our sole supplier of cellular core equipment and systems. See “Item 10C Material Contracts”. See also “Item 3D.2i We depend on a limited number of suppliers. Our results of operations could be adversely affected if our suppliers fail to provide us with adequate supplies of network equipment and handsets and other devices or maintenance support on a timely basis.”

We continue to purchase certain network components, for our cellular, fixed and ISP services, from various other key suppliers. For example, Alcatel-Lucent provides the Company with a pre-paid system that allows subscribers to pay set amounts in advance and thereby allows subscribers to manage their expenses for services. Alcatel-Lucent also provides an Intelligent-Network system, which implements Value Added voice Services such as VPN and Funtone (Music Ring-back Tone).

Handset and other equipment suppliers. In 2009, we entered into a three-year agreement with Apple for the purchase and resale of iPhone handsets in Israel and upon its expiry in 2012 we entered into a new agreement with Apple for an additional three-year period, which has been extended until the end of April 2016. See “Item 10C Material Contracts”. During 2015, Apple was a major supplier of the Company’s iPhone handsets. We also purchase handsets and other equipment, including tablets and laptops, from Samsung, LG and other vendors.

Suppliers for our fixed-line network. Only the Bezeq and HOT Groups own fixed-line telecommunications infrastructures in Israel. As a result, we rely on interconnection with the Bezeq and HOT Groups’ infrastructure. Bezeq supplies the Company with fixed-line transmission services for connecting traffic between approximately 30% of the Company’s sites. The HOT Group supplies the Company with interconnect lines between the broadband backbone and the ISP backbone. See “Item 3D.1b The MoC has failed to enforce its fixed-line wholesale market reforms (originally intended to allow telecommunication providers, such as Partner, that do not have their own fixed-line infrastructure to include the infrastructure component as part of their bundled service offerings). The MoC may also roll back such reforms. Such actions may negatively affect our business and results of operations. In addition, if the structural separation provisions (which apply to Bezeq and HOT Telecom) are removed before we have established ourselves in the fixed-line market, this would negatively affect our business and results of operations.” In addition, for hard-line connection to all major Western European countries and the United States, Med Nautilus supplies the Company with transmission services through its submarine infrastructure. See “Item 10C Material Contracts”.

Sonus Networks Inc. and Broadsoft Inc. supply us with switches for the fixed-line telephony services based on Internet Protocol (“VoIP”). As part of the mentioned above with Ericsson, these services will gradually shift to equipment supplied by Ericsson.

4B.9h Interconnection

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

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

We have formal interconnect agreements with all Israeli cellular and with the other fixed-line and voice over cellular companies. The interconnect tariffs are set forth in the Interconnection Regulations that impose a uniform call interconnect tariff for all cellular operators.

Our network is connected directly to Paltel, the Palestinian fixed-line operator, Wataniya, a Palestinian cellular operator, and indirectly to Jawwal, the cellular operator of Paltel. The interconnect tariffs are set out in commercial agreements.

For a discussion of the Ministry of Communications’ reduction of interconnect tariffs see “Item 4B.13d - iv Reduction of Interconnect Tariffs to Be Paid to Fixed-line Operators”.

Two of our subsidiaries have a domestic fixed-line license. Our subsidiaries are connected directly with all other telecommunication networks operating in Israel. The interconnection fees are set by the Interconnection Regulations.

4B.10 COMPETITION

An overview of our principal competitors and of some aspects of the competitive environment for telecommunications services is set forth below. For further information regarding the impact of regulation and regulatory changes on competition, including measures to enable new service providers to enter the market, and the competitive pressures arising from the development of full-service telecommunications providers and new technologies, see “Item 3D.1 Risks Relating To The Regulation Of Our Industry.” and “Item 3D.2a As a result of substantial and continuing changes in our regulatory and business environment, our operating results have decreased significantly in the past five years, with a loss recorded for 2015. Our operating results may continue to decline in 2016 and beyond, which may adversely affect our financial condition.”

Within the Israeli telecommunications market there are 4 major communication groups: Bezeq, HOT, Cellcom and Partner, as well as a number of smaller operators. See Item "3D.2e Competition resulting from the full service offers by telecommunications groups and additional entrants into the mobile telecommunications market, as well as other actual and potential changes in the competitive environment and communications technologies, may continue to cause a further decrease in tariffs, an increase in subscriber acquisition and retention costs, and may continue to reduce our subscriber base and increase our churn rate, each of which could adversely affect our business and results of operations."

4B.10a Competitors in the Cellular Services market

There are currently five cellular telephone network operators in Israel: Partner, Cellcom, Pelephone, HOT Mobile, and Golan Telecom. Except for Golan Telecom, these cellular operators are part of the four main telecommunications groups. In addition, there are two active MVNO operators – Hashikma Communications Marketing Ltd., (“Rami Levy”) and Home Cellular Ltd. (“Home Cellular”).

We compete principally on the basis of telecommunications service quality, brand identity, variety of handsets and other equipment, tariffs, value-added services and the quality of customer services.

The table below sets forth an estimate of each operator’s share of total subscribers in the Israeli cellular market at December 31, 2011, 2012, 2013, 2014 and estimates for 2015.

Estimated Market Shares*	2011	2012	2013	2014	2015
Partner	32%	29%	29%	28%	27%
Cellcom	34%	32%	31%	29%	28%
Pelephone	29%	28%	26%	25%	26%
HOT Mobile	5%	8%	8%	10%	11%
Golan Telecom and others	-	3%	6%	8%	8%

* Based on Partner subscriber data, as well as information contained in published reports, and public statements issued by other operators. The estimated market shares for 2015 are also based on data regarding the number of subscribers porting between operators.

Cellcom. Cellcom is an Israeli corporation founded in 1994 that is traded both on the Tel Aviv stock exchange as well as NYSE. Cellcom’s major beneficial shareholder is Discount Investment Corporation Ltd., a majority-owned subsidiary of IDB Development Corporation Ltd. (“IDBD”) which is controlled by the Elzstain - Extra group, led by Mr. Eduardo Elzstain. In August 2011, Cellcom acquired Netvision, an Israeli operator of domestic fixed-line services using VoB technology, PRI, transmission and data communications services, ISP services and ILD. Cellcom operates nationwide cellular telephone networks based on GSM 1800 MHz/GPRS, EDGE and UMTS/HSDPA HSUPA technologies as well as fixed-line telephony, transmission and data services and has partially deployed LTE. In 2014, Cellcom launched OTT television services. In November, 2015, Cellcom announced that it entered into an agreement with Golan Telecom and its shareholders for the purchase of 100% of the shares of Golan Telecom.

Pelephone. Pelephone is an Israeli corporation that is a wholly-owned subsidiary of Bezeq, Israel's largest telecommunications provider and the primary fixed-line operator that is controlled by B Communications Ltd., a company indirectly controlled by Shaul Elovitz, the controlling shareholder of Eurocom Communications Ltd., which is the official distributor of, among others, the Nokia group in Israel. Bezeq and its subsidiaries offer fixed-line telephony services, cellular telephony services, PRI, internet broadband access, ISP services, transmission and data communications services, ILD services and multi-channel television services. Since 2009, Pelephone has a UMTS/HSPA network and has partially deployed LTE.

Bezeq – Yes merger. In March 2014, the Antitrust Commissioner approved a merger between Bezeq and its subsidiary, DBS Satellite Services (1998) Ltd. ("Yes"), a multi-channel pay television provider, subject to certain conditions, including, among other things, the following: (1) Bezeq shall not impose any limitations on subscriber internet infrastructure consumption, deriving from subscriber aggregated internet capacity; (2) Bezeq shall deduct sums for providing multi-channel television servicing from payments made to ISPs for connecting it to its network, in accordance with a formula that was set in the decision; (3) Bezeq and Yes shall cancel all exclusivity arrangements in regards to productions they are a party to, and shall not be a party to other exclusivity arrangements for other productions; and (4) for a period of two years from the merger approval, Bezeq shall not prevent any person, excluding a holder of a broadcast license at the time of the decision, from obtaining rights in original productions, not including new productions. The Commissioner's decision allows the same entity to control both Bezeq and Yes. In July 2015, the Ministry of Communications approved the merger. Such merger may increase Bezeq's incentives to prevent or limit Partner and other competitors' ability to provide over-the-top (OTT) multi-channel television services, if Partner or the other competitors should choose to enter the television market. In July 2015, Pelephone entered into an agreement to acquire the business operations of Alon Cellular Ltd., an MVNO that entered the cellular market in 2012. The regulatory approvals were received and the transaction was completed in October 2015.

Other Operators

Hot Mobile. HOT Mobile holds a general license to provide mobile telecommunications services. HOT Mobile's legacy network is an iDEN network. HOT mobile is held indirectly by the Altice Group, a French media group, controlled by Mr. Patrick Drahi, who also holds control of HOT Telecommunications Systems Ltd. ("HOT Telecommunications"), a multi-channel television operator in Israel. In December 2012, HOT Telecommunications was delisted from the Tel-Aviv Stock Exchange. The HOT Group's main areas of activity are multi-channel television services, fixed-line telephony services, PRI, internet broadband access, transmission and data communications services as well as ISP services through its subsidiary HOT-NET. In November 2011, HOT Telecommunications acquired all of the outstanding shares of HOT Mobile. HOT Mobile's cellular license was amended to include UMTS frequencies allocated subsequent to winning a Ministry of Communications' tender offer for frequencies in the 2100 MHz spectrum. The HOT Group, which operates its 3G services under the brand name of HOT Mobile, is required to utilize the 2100 MHz spectrum to build full country coverage.

Partner and HOT Mobile entered into a right of use agreement, which took effect in November 2013, and is valid until April 1, 2016. Under the right of use agreement, Partner provides services to HOT Mobile in the form of a right of use of Partner's radio cellular network in order to supplement HOT Mobile's current network coverage. According to the right of use agreement, HOT Mobile pays Partner fixed base payments with additional variable payments, based, among other things, on traffic volume exceeding a defined threshold. See "Item 4B.9 Our Network- *Cellular Network Sharing Agreement*".

Golan Telecom. Golan Telecom, is a privately owned company, owned by Michael Golan, Xavier Niel and the Parenti family and began operations in early 2012 after winning a Ministry of Communications' tender offer for frequencies in the 2100 MHz spectrum. Golan Telecom signed a national roaming agreement with Cellcom. In November, 2015, Cellcom announced that it entered into an agreement with Golan Telecom and its shareholders for the purchase of 100% of the shares of Golan Telecom. This agreement is subject to the receipt of the approvals of the Ministry of Communications and the Antitrust Commissioner, both of which have not yet approved the acquisition.

Hot Mobile and Golan Telecom licence terms. Under the terms of HOT Mobile and Golan Telecom's licenses, the companies which won the UMTS frequency tender offer were required to pay a minimal fee as well as a guarantee for the balance to the Ministry of Communications before starting operations and to pay the balance of the fee to ensure compliance with the terms of the license after 5 years. However, as an incentive for these companies to rapidly build and expand their customer base, the final total amount of their fees and guarantees is calculated according to the level of the coverage of their services and will be reduced as the level of coverage increases. This incentive has been a significant factor in the aggressive marketing strategies and pricing of the additional entrants in order to gain market share, which, in light of the current saturation of the Israeli cellular market, has resulted in loss of market share by existing companies, including Partner, and substantial downward pressure on tariffs. In November 2013, the Ministry of Communications reduced HOT Mobile's license guarantee since it achieved the market share goal of 7%. In March 2014, the Ministry of Communications reduced Golan Telecom's license guarantee since it achieved the market share goal of 7%.

HOT Mobile and Golan Telecom received additional leniencies as part of the 4G tender. See “Item 3D.2e Competition resulting from the full service offers by telecommunications groups and additional entrants into the mobile telecommunications market, as well as other actual and potential changes in the competitive environment and communications technologies, may continue to cause a further decrease in tariffs, an increase in subscriber acquisition and retention costs, and may continue to reduce our subscriber base and increase our churn rate, each of which could adversely affect our business and results of operations.”

Xphone. Xphone is a privately owned company that currently operates as an ILD operator however it was awarded 5MHz frequency band in the 1800 spectrum following which it may become the sixth facility based cellular operator if they are granted a license.

MVNOs

The Ministry of Communications has granted MVNO licenses to 11 companies, 5 of which had entered the market as of December 31, 2014. The major MVNOs are Rami Levy, which is a subsidiary of a major Israeli discount supermarket chain, Home Cellular which is a subsidiary of a leading group that owns, among others, hardware and home furnishing stores, which was acquired by Cellcom in July 2015 and Alon Cellular which was owned by Alon Holdings, that controls a leading retail and gas station chain. In July 2015, Pelephone entered into an agreement to acquire Alon Cellular. The regulatory approvals were received and the transaction was completed in October 2015.

In May 2013, we signed a hosting agreement with Azi Communications Ltd. with respect to their use of Partner’s network as an MVNO.

Following a hearing published by the Ministry of Communications, in November 2014, the Ministry published an administrative decision, regarding the pricing of MVNO hosting by cellular operators. The MoC has decided that the reference point for whether a hosting price is considered reasonable will be the most favorable business proposals each cellular operator has offered to its commercial subscribers. An MVNO that claims that the hosting conditions prevent it from competing and does not reach an agreement with a cellular operator to change them, particularly as regards the price, may request the Minister of Communications to evaluate whether they are reasonable. As a result, the pricing we charge to host MVNOs on our network may be affected causing an adverse impact on our revenues.

In addition, Paltel operates a GSM mobile telephone network under the name “Jawwal” in the Palestinian Administered Areas. Paltel also operates a fixed-line network. Paltel’s GSM network competes with our network in some border coverage overlap areas. A second Palestinian operator, Wataniya launched its GSM network during 2009.

Several service providers offer competitive roaming solutions. The service is offered, *inter alia*, by the International Long Distance vendors as well as by specialized enterprises.

See also “Item 3D.1c Potential future regulation and negotiation of roaming tariffs, both within Israel and elsewhere, may increase our roaming expenses, decrease our roaming revenues and prevent us from raising our tariffs.”

Market Saturation. Because the Israeli cellular market has reached a level of full saturation, except for natural market growth through the growth of population, any acquisition of new subscribers by any service provider results in a loss of market share for its competitors.

4B.10b Competitors in Fixed-line Services

In the fixed-line market, our main competitors are Bezeq, Israel's largest telecommunications provider and the primary fixed-line operator, HOT Telecom, and other telecommunication services providers, including Cellcom who operate in the fixed-line market. The Bezeq Group, the HOT Group and Cellcom provide cellular telephony services, ILD services, PRI, internet broadband access, ISP services, transmission and data communications services and multi-channel television services.

The Bezeq Group. The Bezeq Group is under structural separation rules which apply to management, employees, assets, marketing and finance and data systems. Starting in 2010, the Ministry of Communications has allowed the Bezeq Group to market bundled telecommunications services to the private sector, subject to certain conditions and limitations, including provisions which prevent Bezeq from discounting the price of bundled services from their unbundled prices and from including its fixed-line telephony service within bundles. See "Item 4B.2 *Broadband and Internet services.*" Following implementation of the broadband wholesale market, the requirement for structural separation may be removed, which would allow Bezeq to take advantage of its nationwide presence and cross-subsidization to market and sell more competitive and attractive offers than we will be able to offer, including cellular services. Bundled offerings have become more frequent in Israel and have caused price erosion in the services included. See "Item 3D.1b The MoC has failed to enforce its fixed-line wholesale market reforms (originally intended to allow telecommunication providers, such as Partner, that do not have their own fixed-line infrastructure to include the infrastructure component as part of their bundled service offerings). The MoC may also roll back such reforms. Such actions may negatively affect our business and results of operations. In addition, if the structural separation provisions (which apply to Bezeq and HOT Telecom) are removed before we have established ourselves in the fixed-line market, this would negatively affect our business and results of operations."

The HOT Group. The HOT Group may offer a bundle of services only including fixed-line telephony, broadband infrastructure and multi-channel television ("Triple"). The bundle of services currently offered by the HOT Group does not include cellular services (other than a bundle of cellular services with ISP services offered by its subsidiaries HOT Mobile and Hot-Net Internet Services Ltd. ("HOT-NET")).

The Ministry of Communications allowed HOT Telecom LLP, HOT Telecommunication and HOT Mobile to sell and market each other's services and exchange information regarding such marketing activities.

Upon an effective wholesale fixed-line market, the Ministry of Communications may cancel the structural separation imposed on the Bezeq and HOT Groups. This will allow the groups to offer attractive bundles that include all of the above services that may result in a loss of market share by Partner in all relevant telecom markets. See "Item 3D.1b The MoC has failed to enforce its fixed-line wholesale market reforms (originally intended to allow telecommunication providers, such as Partner, that do not have their own fixed-line infrastructure to include the infrastructure component as part of their bundled service offerings). The MoC may also roll back such reforms. Such actions may negatively affect our business and results of operations. In addition, if the structural separation provisions (which apply to Bezeq and HOT Telecom) are removed before we have established ourselves in the fixed-line market, this would negatively affect our business and results of operations."

The Cellcom Group. Cellcom provides landline telephony, transmission, PRI, ISP and data services through inland fiber optic transmission and complementary microwave links to business customers and private sectors. Since February 2015, Cellcom began marketing an ADSL infrastructure product (wholesale Bit Stream Access service provided over Bezeq's network). During 2015, Cellcom entered the television market using hybrid OTT-DTT television services which may be bundled with additional IP TV or over the top (OTT) offerings.

In the ILD services market, we compete with Netvision from the Cellcom Group, Bezeq International, Xphone, Hashikma N.G.N International Communications 015 Ltd. Telzar International Telecommunication Service Ltd, Golan Telecom International Ltd. and HOT Mobile International Telecommunications Ltd.

See also "Item 4B.2 Special characteristics of the Fixed-Line Telecommunications Industry in Israel".

Israel Broadband Company (IBC). IBC received a general license for the provision of fixed-line telecom services (infrastructure) and for the establishment of a nationwide optic fiber network using the Israeli Electric Company's infrastructure in August 2013. IBC is owned by Israel Electric Corporation (40%) and a consortium of companies elected as the winning bidder in the election process, which is comprised of the following companies: ViaEuropa Israel Ltd., RAPAC Communication & Infrastructure Ltd., BATM advanced Communication Ltd., Tamares Holdings Sweden AB and Zisapel Properties (1992) Ltd. and Cisco Systems Finance International (60%). Although IBC is in principle permitted to provide its services only to other telecommunications licensees on a wholesale basis, IBC has introduced a new business model which enables it to reach the retail market through the services of ISPs who sign agreements with them. Currently, IBC has agreements with the relatively small ISPs while the three major ISPs in Israel (Bezeq International, Netvision and Partner) have no distribution agreements with IBC.

4B.11 INFORMATION TECHNOLOGY

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

While many of our systems have been developed by third-party vendors, all of them have been modified and refined to suit our particular needs. In certain instances, we have developed critical information technology capabilities internally to meet our specific requirements. In connection with our transformation into a diversified multi-service communications provider, we have completed significant milestones in our CRM upgrade project. We are upgrading our Enterprise Service Bus (“ESB”) and contact center with systems that are better suited to our current and future needs.

In addition, the Company invested resources to improve the quality of the IT processes and billing accuracy.

4B.12 INTELLECTUAL PROPERTY

We are the registered owners of the trademark “Partner” in Israel with respect to telecommunications-related devices and services, as well as additional trademarks. We have also registered several internet Web domain names, including, among others: www.partner.co.il. 012 Smile is the registered owner of several trademarks in Israel with respect to telecommunications-related services that include the numbers “012”. In addition, 012 Smile has registered several internet Web domain names, including, among others, www.012.net and www.012.net.il. Partner is the assignee in a patent application filed in March 2012 that claims a method for delivering short messages originated by roaming prepaid subscribers. A Notice of Allowance was issued for the application in September 2013 and a patent was issued on January 14, 2014.

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

4B.13 REGULATION

4B.13a Overview

We operate within Israel primarily under the Telecommunications Law, the Wireless Telegraphy Ordinance (New Version), 1972 (the “Wireless Telegraphy Ordinance”), the regulations promulgated by the Ministry of Communications and our license. The Ministry of Communications issues the licenses which grant the right to establish and operate mobile telephone and other telecommunication services in Israel, and sets the terms by which such services are provided. The regulatory framework under which we operate consists also of the Planning and Building Law, the Consumer Protection Law, 1981, and the Non-Ionizing Radiation Law. Additional areas of Israeli law may be relevant to our operations, including antitrust law, specifically the Restrictive Trade Practices Law, 1988, the Class Actions Law, 2006, the Centralization Law, 2013 and administrative law.

4B.13b Telecommunications Law

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

General licenses, which relate to telecommunications activities over a public network or for the granting of nationwide services or international telecommunications services, have been awarded to the Bezeq Group, to the HOT Group, to four other cellular operators besides Partner and to the international operators. In addition, the Ministry of Communications has granted MVNO licenses to a number of companies. During 2015, the Ministry of Communications began to substitute all MVNO licenses, general licenses for ILD services and unique-general licenses for fixed line services, with a single type of General Unified license which governs all the services regulated under all of such licenses.

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

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

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

The Ministry of Communications is authorized to impose significant monetary sanctions on a license holder that breaches a provision of the Telecommunications Law or of its license.

Frequency Fees. Under the Telegraph Regulations, the Company is committed to pay an annual fixed fee for each frequency used. For the years 2013, 2014 and 2015, the Company paid a total amount of approximately NIS 60 million, NIS 60 million and NIS 65 million, respectively. See also Note 17(1) to the consolidated financial statements.

Royalties. Pursuant to the Communications Regulations (Telecommunications and Broadcasting) (Royalties), 2001, we pay royalties to the State of Israel every quarter based on our chargeable revenues, as defined in the regulation, from mobile telephone services, fixed-line services and ILD services, on a cumulative basis, excluding value-added tax. Revenues for purposes of royalty calculation also exclude different payments as in the regulations for each of the above services. The rate of these royalties has decreased in recent years. The royalty rate for 2012 was set at 1.3% and since 2013 the rate has been set at 0%.

4B.13c Fair Competition and Antitrust Law

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

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

4B.13d Regulatory Developments

See also "Item 3D.1 RISKS RELATING TO THE REGULATION OF OUR INDUSTRY" for a discussion of how recent regulatory developments create risks for our financial condition, business and results of operations.

4B.13d - i Consumer Protection License Amendments

The Ministry of Communications has begun conducting a new hearing to address various alleged consumer issues. We are currently in the process of examining these suggested amendments and cannot yet assess the impact such amendments may have on the various areas of our business if our cellular license is amended as proposed in this hearing.

4B.13d - ii Filber Committee

In October 2015, the Minister of Communications appointed a committee, headed by the Director General of the Ministry of Communications, Mr. Shlomo Filber (the "Filber Committee") to advise on the future regulation of the broadcasting and content market. According to the letter of appointment, the Filber Committee has been requested to formulate recommendations and to suggest that a bill should be introduced for its implementation regarding the following issues: encouragement for new entry into the broadcast market and encouragement of market competition (including by new entrant protections); application of regulation on new content bodies in the market; encouraging Israeli original productions; the implications of the increase in content services provided over broadband and the supervisory and enforcement arrangements, if required. The Filber Committee published an interim report in which it described its draft recommendations. Such draft recommendations include the adoption of the principle of technology-neutral regulation. This would translate, inter alia, to the application of regulation on audio visual content transmitted over the internet. However the Filber Committee suggests that regulation would be applied differently to different kinds of audio-visual service providers. For example, providers of "television services" (audio visual services which are intended for the Israeli market or contain 4 or more linear channels) would be subjected to "soft regulation" which would include a content rating system, protection of minors, accessibility requirements, and a choice between advertising or subscription fees as the source of funding. The Company has filed its position with the Filber Committee in which it argues for more lenient terms to be applied to new entrants and for specific arrangements which would alleviate entry barriers and encourage entry into the market. If the Filber Committee decides not to recommend to apply such protections, then we might not be able to penetrate this market and to successfully launch a competitive multi-channel offering.

In September 2010, the interconnect tariffs payable to Israeli cellular operators by other Israeli telecommunications operators were updated:

- the maximum interconnect tariff payable by a telecommunications operator to a cellular operator for the completion of a call in its cellular network was reduced from the tariff of NIS 0.251 per minute to NIS 0.0687 per minute effective January 1, 2011; to NIS 0.0634 per minute effective January 1, 2012; to 0.0591 per minute effective January 1, 2013; and to NIS 0.0555 per minute effective January 1, 2014; and
- the maximum interconnect tariff payable by a telecommunications operator to a cellular operator for sending an SMS message to its cellular network was reduced from the tariff of NIS 0.0285 to NIS 0.0016 effective January 1, 2011; to NIS 0.0015 effective January 1, 2012; to NIS 0.0014 effective January 1, 2013; and to NIS 0.0013 effective January 1, 2014.

The tariffs do not include VAT and are to be updated annually on January 1 of each year starting January 1, 2011, in accordance with the CPI, using the average annual CPI for the year 2009 (as defined by the Israeli Central Bureau of Statistics) as the basic CPI. In addition, the interconnect tariffs were linked to the royalty rates that applied to telecommunication operators in accordance with the royalty regulations.

In 2015, the maximum, updated and CPI-adjusted tariff per minute excluding VAT was NIS 0.0613 for completion of a call in a cellular network and NIS 0.0014 excluding VAT for completion of an SMS message. As of January 1, 2016, the maximum, updated and CPI-adjusted tariff per minute excluding VAT is NIS 0.0609 for completion of a call on a cellular network and remains NIS 0.0014 excluding VAT for completion of an SMS message.

In October 2013, the Ministry of Communications published its decision following a hearing conducted regarding a change in interconnect tariffs for the completion of a call on a fixed-line network. According to the decision, effective December 1, 2013, the maximum uniform tariff for the completion of a call on a fixed-line network was NIS 0.01 (1 agora), excluding VAT per minute, for all hours of the day, instead of NIS 0.0421 per minute during peak hours and NIS 0.0234 per minute during off-peak hours. The tariff is to be updated annually in accordance with changes to the CPI. Accordingly, in 2015, the maximum, updated and CPI-adjusted tariff per minute excluding VAT was NIS 0.01 for completion of a call on a fixed-line network. As of January 1, 2016, the maximum, updated and CPI-adjusted tariff per minute excluding VAT is NIS 0.0100 for completion of a call on a fixed-line network.

In June 2014, the Ministry of Communications published its decision regarding premium services following a public hearing. The decision applies to certain telecommunications licensees, including the Company, and was due to become effective as of February 15, 2015. Following an appeal to the Supreme Court, the implementation of the regulation was delayed until October 1, 2015. In the MoC's decision (and its amendments) it was determined, among other things that all premium rate services may be provided through only three prefixes, two of which shall be blocked as a default. The relevant licensees would be required to announce at the beginning of each premium rate call the nature of the service and its rate and maximum cost (and that such costs are in addition to the usual charges). The subscriber will be allowed to disconnect without being charged. Our revenues in 2016 are likely to be adversely affected as a result of this decision.

The Israeli Ministry of Communications published a 4G frequencies tender in July 2014. In connection with the tender the Company provided the government with a bank guarantee in the amount of NIS 10 million. Operators who were allocated with frequencies as part of the tender will be allowed to provide 4G services in the 1800 MHz spectrum.

In March 2015, the acting Minister of Communications approved the results of the tender bid process in which we won an additional 5 MHz in the 1800 spectrum (in addition to our 10 MHz frequency bands in the 1800 spectrum). Golan Telecom, Hot Mobile and Xphone were also each awarded a bandwidth of 2x5 MHz of frequencies in the 1800 band. Cellcom was awarded a bandwidth of 2x3 MHz of frequencies in the 1800 band and Pelephone was awarded three bandwidths of 2x5 MHz each of frequencies in the 1800 band. In August 2015, the Ministry of Communications allocated the frequency bandwidth of 5MHz in the 1800MHz spectrum to the Company, which the Company was awarded, as part of the 4G frequencies tender.

This frequency allocation, in addition to the 10 MHz which are in the Company's use, together with the 5 MHz band allocated to Hot Mobile which is a party to the joint venture, will allow the Company to realize a 20 MHz band for its 4G services and offer its customers a significantly improved data experience through a national deployment of its 1,400 4G sites that are already active. See "Item 4B.9a Overview".

Hot Mobile, Golan Telecom, and Xphone, will be entitled to a discount at a rate of up to 50% of the amount that they will have to pay for the 4G frequencies (each addition of 1% market share will grant a discount at a rate of 10%, up to a maximum discount at a rate of 50%, during a period of 5 years).

The LTE spectrum bid rules, published by The Ministry of Communications, place restrictions with respect to the maximum LTE spectrum holdings for a specific operator. The current policy does not allow a single operator to hold more than 15 MHz of LTE spectrum if it plans to share its network with another operator. Because of this, Partner's LTE network performance is highly dependent on the Network Sharing Agreement with Hot Mobile. Furthermore, if we fail to reform some of our existing spectrum in the 1800 band (currently used to provide GSM services), this may place us at a disadvantage compared to our competitors. See "Item 3D.1g We may have less access to spectrum for fourth generation (4G) services than some of our competitors as a result of network sharing agreements. We also may be required to terminate the use of certain spectrum or to share with another operator some of the spectrum we are currently using on an exclusive basis. If these developments occur, they may adversely affect our network quality and capacity as well as our ability to provide our customers with competitive advanced technology services, which may adversely affect our results of operations."

4B.13d - vii The Promotion of Competition and the Reduction of Centralization Law

The Promotion of Competition and the Reduction of Centralization Law (the "Centralization Law") was enacted in Israel on December 11, 2013. The Centralization Law deals with three main issues: (a) rights allocation by regulators; (b) limitations on control over a group of companies organized in a pyramidal structure; and (c) separation between significant real entities and significant financial entities.

Pursuant to the Centralization Law, when allocating rights in essential infrastructure (including in the communications field) to certain entities, defined as "Concentrating Entities", the allocating regulator is required to take into account considerations of overall market centralization. Furthermore, when allocating rights to any entity, the regulator is required to take into account considerations of promoting the competition in the relevant sector. The term "Rights Allocation" includes, inter alia, granting and renewing a license.

As of the date of the report, the Company is not defined as a "Concentrating Entity". However, the Centralization Law may have direct and indirect effects on the Company and the sector in which it operates, including possible effects on the renewal of the Company's licenses and the allocation of new licenses to the Company; and possible effects on the Company's ability to cooperate or otherwise conduct transactions with other participants in the Israeli communications market.

4B.13d - viii Securities Administrative Enforcement and Antitrust Enforcement

An amendment to the Israeli Securities laws, which came into force in January 2011, established administrative enforcement measures for handling certain violations of certain securities and securities-related laws supervised by the Israeli Securities Authority, or ISA. This amendment allows the ISA to impose various civil enforcement measures, including financial sanctions, payment to the harmed party, prohibition of the violator from serving as an executive officer for a certain period of time, annulment or suspension of licenses, approvals and permits granted under such laws and an agreed settlement mechanism as an alternative for a criminal or administrative proceeding. In case of a violation by a corporation, the amendment provides for additional responsibility of the Chief Executive Officer in some cases, unless certain conditions have been met, including the existence of procedures for the prevention of the violation, as part of an internal enforcement plan. The Company is prohibited from insuring, paying or indemnifying directors or senior officers for financial sanctions imposed on them in accordance with this amendment subject to certain exemptions set forth in the law. The Company has implemented an internal enforcement plan in accordance with this amendment and has implemented an internal antitrust enforcement plan intended to ensure that all relevant parties in the Company comply with antitrust laws and regulations. The Company provides ongoing guidance and training to the Company's directors, office holders and relevant employees.

The Ministry of Communications and other regulators have also conducted hearings and examinations on various matters related to our business, such as:

- *Roaming fees.* The Ministry of Communications is evaluating the cost of roaming and may introduce new regulations that would limit fees charged by Israeli cellular companies for calls made by the customers of foreign network operators while they are in Israel and using our network, as well as for calls made by our own customers using their handsets abroad. The Ministry of Communications has requested additional and more specific international roaming data from the cellular companies. Because we consider roaming charges to be a significant source of revenue, such regulatory limits could adversely affect our revenues.
- *Roaming Services.* In August 2014, the Ministry of Communications published a hearing aimed at increasing competition in roaming services abroad currently provided by cellular licensees. As part of the hearing, the Ministry proposed to enable every cellular subscriber to receive roaming services abroad from operators which are not his cellular provider (on top of his cellular operator) while keeping his cellular number. These alternative roaming providers include other cellular licensees, MVNOs, ISPs, ILD licensees and fixed telephony licensees. The Ministry of Communications also suggested determining various measures intended to improve transparency and to limit subscriber payments only to the exact volume of services consumed. Such measures include: all roaming calls abroad (incoming and outgoing) would be billed using time units of 1 second; all roaming data sessions would be billed using volume units of 1KB; the billable duration of all voice calls would be from the second in which the call was connected and until it ended (explicitly excluding any wait period from pushing the "call" button until the call is connected). Because we consider roaming charges to be a significant source of revenue, such regulatory limits could adversely affect our revenues.
- *Frequency fees.* The Ministry of Communications is conducting a re-assessment of the frequency fees set forth in the law, which includes the assessment as to its economic value, in order to support effective allocation and the utmost utilization of the frequencies.
- *Roaming services during emergencies.* In September 2012, the Ministry of Communications published a hearing with respect to roaming during a state of emergency or during a significant continuous malfunction in which the Ministry of Communications considers determining that under certain conditions, upon the Minister of Communications' instruction, cellular operators that have their own network infrastructure, will be required to provide roaming services to the subscribers of other cellular operators that have network infrastructure, whose network has been rendered non-functioning for a significant amount of time following an event resulting from a state of emergency, a telecommunications crisis or during a significant continuous malfunction. The Company submitted its response to the hearing in October 2012. The revenues of the Company would be adversely affected if these proposed new regulations are adopted.

- *Intervention in international call market.* In October 2013, the Ministry of Communications published a hearing regarding new regulation of the international call market. In the hearing, it was proposed by the Ministry to allow all general licensees (including MVNOs) to provide international call services to their subscribers, with respect to the international destinations which are included in their subscribers' tariff plans and to international destinations for which the tariff is lower or equal to the tariff of a call on the licensee's network ("Included Destinations"). The Ministry of Communications also proposed in the hearing that the general licensees (such as cellular operators) would not be allowed to collect an interconnect fee for outgoing international calls. The Company submitted its response to the hearing in January 2014. In October 2014, the Ministry published a secondary hearing on this matter, in which it proposed that all outgoing international calls which are not to Included Destinations, shall be preceded with a voice message stating the tariff of such call and allowing the subscriber to disconnect without being charged. The Company submitted its response to this secondary hearing in October 2014. The revenues of the Company may be adversely affected if the changes proposed in these hearings are adopted.
- *Filtering of Offensive Websites and Content.* In August 2014, the Ministry of Communications published a hearing regarding proposed amendments to telecommunications licenses granted to various operators, including the Company and its subsidiaries. According to the Telecommunications Law, ISP and cellular licensees, are required to provide a service for filtering of offensive websites and content at no additional cost to the subscriber. The Law also includes provisions which oblige said licensees to inform their subscribers of the dangers of internet use (including offensive websites and content). As part of the hearing, it is proposed to amend the ISP and cellular licenses to include additional requirements to the existing requirements described above. The proposed amendments include, among others, the following matters: (1) detailed specifications of the filtering service; (2) requirements regarding the informational leaflet to be provided to the subscriber; and (3) an obligation to offer filtering software to be installed on any type of terminal equipment. In October 2014, the Company filed its written position seeking to limit the impact of the proposed amendments.
- *Consumer Protection-Call Centers.* In August 2014, the Ministry of Communications published a hearing regarding proposed amendments to telecommunications licenses granted to various operators, including the Company and its subsidiaries. As part of the hearing, it is proposed to amend the licenses with respect to the quality of service of the licensees' call centers. The amendments include, among others, the following matters: the maximum response times for each call and the average daily response times; recording requirement regarding a billing inquiry, termination of all services or termination of a single service calls; and requirement to issue and to publish on the licensees' websites detailed weekly reports that will include complete data in relation to their conduct regarding response times. The Company submitted its response to the hearing in October 2014. In parallel to the hearing, the Ministry of Communications published a draft memorandum with respect to the Telecommunications Law, according to which a subscriber will be able to sue for a fixed amount of compensation in case a licensee fails to meet the proposed response times and for compensation in case of an over charge in the monthly bill, both without proving damages. The Company submitted its response to the draft memorandum in October 2014. These amendments may have an adverse affect on the Company's results of operations.
- *Cellular Network Coverage Amendments.* In July 2014, The Ministry of Communications and the Civil Administration in Judea and Samaria published a hearing regarding a proposed amendment to general licenses for the provision of cellular services (MRT), granted to five operators including the Company. As part of the hearing, it is proposed to amend the operators' licenses and to materially intensify the requirements set in the licenses with respect to the coverage and service quality of the operators' 2G and 3G networks deployed in Israel and in the Judea and Samaria area, as follows:
 - Minimum coverage requirements - will be set out in terms of population, territory, settlements and roads and railroad track paths;

- Quality of service requirements - will be set out in terms of the percentage of blocked and dropped calls, the minimum level of reception and the minimal speed for uploading and downloading data.

The Company submitted its response to the hearing in September 2014 and the MoC's officials conducted another hearing in the Company's offices in December 2014. The revenues of the Company may be adversely affected by the results of the hearing.

- *Transmission line connections between ISP providers' facilities and fixed-line infrastructure.* In April 2015, the Ministry of Communications published a hearing, stating that Bezeq and Hot Telecom (the "infrastructure owners") would not be allowed to oblige ISP providers to purchase "Gigabit Ethernet" services (transmission services which connect ISP's facilities to Bezeq and Hot Telecom's infrastructures) from the infrastructure owners and the ISP providers would be allowed to purchase "Gigabit Ethernet" services from other licensees or perform such connections themselves. As part of the hearing, the Ministry stated that such a practice of the infrastructure owners does not presumably comply with the Telecommunications Law, which states that a licensee will be forbidden to condition the supply of a certain telecommunications service upon the supply of another telecommunications service. The Company submitted its response to this hearing. If the final decision in this hearing process will be as suggested in the hearing, the Company may be positively affected by the results of the hearing.
- *Change of "Subscriber" definition in numbering program regarding number portability.* In May 2015, the Ministry of Communications published a hearing aimed at amending the definition of a "Subscriber" in the numbering program regarding number portability ("Number Portability Plan"). According to the hearing, the suggested amendment is meant to increase competition in the cellular market by allowing a subscriber who received his phone number from his employer, to keep the phone number when migrating to another cellular operator. In addition, the Ministry suggests, as part of the hearing, to set certain changes in the Number Portability Plan, with respect to the identification of an applicant to keep his phone number in the event of a change of a cellular operator. The Company submitted its response to this hearing in June 2015. These amendments may have an adverse affect on the Company's results of operations.
- *Communication facilities in residential buildings.* In May 2015, the Ministry of Communications published a hearing with respect to the installation of telecom cables in residential buildings. According to the hearing, the Ministry received several complaints from the IBC - Israel Broadband Company, which indicates that in many residential buildings, all telecom cabinets and ducts are fully occupied by infrastructure deployed by Bezeq and Hot, in a manner that prevents deployment of other infrastructure, including telecom cables, by another company. Accordingly, the Ministry proposed that several orders should apply to HOT and Bezeq in order to remove the barriers for the deployment of telecommunications infrastructure by other telecom providers. The Company submitted its response to this hearing. The Company may be positively affected by the results of the hearing.
- *Collection of payments for on-going and one-time transactions, and relative billing.* In September 2015, the Ministry of Communications published a hearing, regarding a proposed amendment to general licenses for the provision of cellular services (MRT), MVNO licenses and general-unified licenses. As part of the hearing, it is proposed to require such licensees to comply with the following demands: payment for a one-time transaction will be pre-paid, while payment for on-going transactions will be post-paid; with regard to on-going transactions, in which a fixed period payment is collected from the subscriber - if the subscriber terminates the agreement with the licensee, then the licensee may require a payment based upon the ratio between: (a) the number of days from the beginning of the accounting period through the date of termination, and (b) the total number of days during the accounting period; in addition, in such on-going transactions, in the event that the licensee ceases to provide all of its services to a subscriber, due to a breach of contract conducted by the subscriber, then the licensee will cease to charge the subscriber for a payment and will instead charge the fixed payment for the month during which the breach occurred, calculated on the basis of the ratio between the number of days in which the licensee has provided its services to the subscriber and the total number of days in the relevant month. The Company submitted its response to this hearing. These amendments may have an adverse affect on the Company's results of operations.

In May 2012, the Ministry of Communications published the final policy document with respect to increasing competition in the fixed-line telecommunications market. The document adopted the main recommendations of the Hayek Committee, a committee formed by the MoC to study and make recommendations regarding the Israeli telecommunications market. The main points were as follows:

A. Sale of wholesale services:

- i. The two wireline infrastructure operators that provide retail telecommunication services will be required to offer wholesale services to the other telecommunication providers, that will offer services on the owners' infrastructure (the wholesale market), based on non-discriminatory conditions.
- ii. The wholesale services tariffs and the terms of agreement shall be determined through negotiations between the two wireline infrastructure operators and the service providers. An infrastructure owner that reaches an agreement with such other provider shall be required to offer the same terms, without discrimination, to all other providers. Affiliates of the infrastructure owner shall also be allowed to purchase wholesale services as long as these will be provided without discrimination to all other providers.
- iii. The Ministry of Communications shall intervene and set the wholesale tariffs and said terms of agreement, in case an agreement has not been reached between the parties within 6 months from the date of the publication of the policy document or if the agreement between the parties includes tariffs or terms that are unreasonable, may harm the competition, may harm the public welfare or may harm the interest of the service provider.

B. Structural Separation

- i. Within 9 months of a signed agreement between said parties, the structural separation between the fixed-line infrastructure owner and its international call provider and internet service provider (ISP) affiliates shall be abolished and replaced by an accounting separation.
- ii. The Minister of Communications shall consider providing leniencies or abolishing the structural separation (and replacing it with an accounting separation) between the fixed-line infrastructure owner and its affiliated cellular operator, in accordance with the development of the wholesale market and the pace of development of competition based on packaged services that combine fixed-line services and cellular services in the private sector.
- iii. In case a proper and appropriate wholesale market does not develop within 24 months from the date of the publication of the policy document, the Minister of Communications shall act to impose a structural separation in the fixed-line infrastructure owners, between the infrastructure and the services provided through this infrastructure to the end-customers.

C. Supervision over Bezeq Tariffs

Within 6 months from the date such an agreement is signed between the said parties, the Ministry of Communications shall act to change the manner of supervision over Bezeq tariffs so that the supervision shall be done by setting a maximum tariff.

D. Television Broadcasts

- i. The Ministry of Communications shall examine imposing a requirement to offer unbundled television services that are included in services packages that include telecommunication services (fixed-line and mobile) or broadband access services, which means a requirement to provide them at the same tariff as part of a service package or separately.
- ii. The abolishing of the structural separation with respect to multi-channel television shall be done if there is a reasonable possibility to provide a basic package of television services through the internet by service providers that do not own fixed-line infrastructure.

In June 2013, since no agreement had been achieved according to clause a(iii) above, the Ministry of Communications published a hearing regarding a basic offering of wholesale services and their prices, that an infrastructure owner shall be required to offer on the same terms, without discrimination, to all providers. After a long process involving several hearings (regarding the texts of the relevant service portfolios and the prices of said wholesale services), in November 2014, the Ministry of Communications published the decision of the Minister of Communications regarding regulation of the wholesale market for broadband fixed-line telecommunications services - defining a format for the supply of wholesale services and setting a tariff for the supply of these services.

Within this framework, the Minister of Communications decided to amend the licenses of the infrastructure owners - Bezeq and HOT - and to prescribe the service portfolio - managed broadband access and wholesale telephony service. The regulations attached to the Minister of Communications' decision prescribe the obligation to supply the wholesale services, including ancillary services, as well as maximum tariffs (requiring the approval of the Minister of Finance) for the said wholesale services. The tariffs set at this stage, relate solely to services to be provided by Bezeq. The Ministry of Communications intends on initiating a separate regulation process addressing the tariffs for the wholesale services to be provided by HOT, a cable infrastructure owner. The Company is examining the contents of the Minister's decision regarding regulation of the wholesale market.

In December 2014, Bezeq submitted a petition to the High Court of Justice against the MoC and the Minister regarding said decision. In the petition Bezeq claims, *inter alia*, that the hearing procedure conducted by the MoC did not comply with the administrative law requirements and that both the wholesale telephony service and the tariffs that were set for the wholesale market services deviate from the Minister's authority under the Law. The Company was nominated as a respondent to the petition. If changes are made to the Minister's decision that cause an increase in the wholesale tariffs or a worsening of the technical and operational standards set by the MoC, this could negatively affect our results of operations. In October 2015, the court published a decision, in which the court rejected Bezeq claims with respect to the feasibility of implementation of a telephony wholesale market. The MoC has since published a consultation with respect to the resale of Bezeq's telephony services during an interim period of approximately one year.

Margin Squeeze - In November 17, 2014, the Ministry of Communications published a hearing to examine the format for preventing a "margin squeeze" by the fixed-line infrastructure owners - Bezeq and HOT - which occurs when an infrastructure owner lowers its retail prices and narrows the margin between its retail prices and the wholesale price of those infrastructure inputs being purchased by service-providers to a level that erodes the service-providers' margin to the point of eradicating the economic feasibility of continuing their operations, the objective being to push service-providers out of the market. The Company submitted its response to the hearing in December 2014. Should the Ministry of Communications' decision with regard to the margin squeeze mechanism not prove effective in ensuring the effectiveness of the wholesale market, our profitability and results of operations could be materially adversely affected.

In December 2015, the MoC issued an administrative instruction regarding the use of terminal equipment, as part of the wholesale market services, in order to ensure continuity of the service for the end users. As part of its decision, the MoC established the following arrangements:

- o A service provider which loaned or rented terminal equipment to its subscriber, that later becomes a subscriber of another service provider in the wholesale market, will not be able to prevent or limit the continuity of the subscriber's ordinary use of the terminal equipment, for a period of 21 days;
- o The payment to the service provider for the terminal equipment during such interim period will be performed by the subscriber, in a similar manner to its arrangement with its previous service provider (and the subscriber would not pay any payment for such equipment to the new service provider).

The Company may be adversely affected by this arrangement since Bezeq may block the use of terminal equipment provided to its former subscribers, even if such subscribers have paid the agreed compensation set out in their contract with Bezeq.

In July 2015, one day before the date of entry into force of the wholesale service of access to passive infrastructure of infrastructure owners, the Ministry of Communications published new instructions regarding the compliance with security requirements in relation to the use of HOT and Bezeq's passive infrastructure, valid until November 1, 2015. According to the instructions, during such period, the performance of the work required for the grant of access to HOT and Bezeq's infrastructure will be made only by the infrastructures owners (Bezeq or HOT) and not by the service providers. In addition, the instructions set restrictions regarding the access to the infrastructure owner's information, concerning the deployment of infrastructure. Although the abovementioned interim period has since passed, the MoC failed to enforce its abovementioned decision on Bezeq, and no passive-infrastructure wholesale products have been sold in accordance with its policy.

In December 2015, the Ministry of Communications published a hearing with respect to the resale of Bezeq's telephony services in the wholesale market. In the hearing, the Ministry proposed to allow Bezeq to offer telephony services in a resale format, instead of the wholesale telephony service, for a period of 12 months; this, by amendment of Bezeq's general license and adding the said services to the list of services that Bezeq may provide. Respectively, the Ministry is considering amending Bezeq's license so that during this interim period, Bezeq will not be obliged to offer wholesale telephony services. According to the hearing, the payment offered by Bezeq for the resale of services will be derived from the retail prices of Bezeq's attractive minute bundles which are reduced at a rate of 40%, and said reduction should be derived from the average rates for the first and second year tariffs of these bundles. The Company submitted its response to this hearing in the beginning of 2016 in which it argued against the interim arrangement and the MoC authority to set wholesale prices in a license (such regulation requires the setting of regulations to be co-signed by the Minister of Finance). Alternatively, the Company argued that the suggested price for the resale telephony service is too high and does not leave any margin for competition and market entry.

In order to provide an incentive for Bezeq to implement the wholesale market, the MoC has announced that it intends to cancel the regulations requiring Bezeq to maintain a "structural separation" between its fixed-line and mobile telecommunications operations, and to change the current retail fixed-price tariff control mechanism to a "maximum tariff" one. The MoC's work plan for the year 2016 includes a reference to removal of structural separation provisions during 2016. Recently, the MoC has published official announcements which indicate its satisfaction with the implementation of the wholesale market reform. We have strongly opposed the factual descriptions and the conclusions in the announcement. If the MoC removes the structural separation provisions based on its above-mentioned announcements before we have firmly established ourselves in the fixed-line telecommunications services market (in both fixed-line telephony and broadband), Bezeq may be able to propose bundled services more effectively than us, and thereby gain a competitive advantage which would negatively affect our results of operations.

In January 2016, The MoC published a consultation regarding the maximum prices HOT may charge for its wholesale BSA product. We are currently examining the model used by the MoC to set these prices and will present our position to the MoC.

4B.13d - xi Israel Broadband Company

In August 2013, the Minister of Communications granted Israel Broadband Company (2013) Ltd. ("IBC"), a general license for the establishment of a nationwide optic fiber network using the Israel Electric Company's infrastructure. IBC is owned by Israel Electric Corporation (40%) and a consortium of companies elected as the winning bidder in the election process, which is comprised of the following companies, which hold together 60% of IBC as follows: ViaEuropa Israel Ltd. (30%), RAPAC Communication & Infrastructure Ltd. (7.5%), BATM advanced Communication Ltd. (7.5%), Tamares Holdings Sweden AB (7.5%) and Zisapel Properties (1992) Ltd.

Under its general license, IBC is permitted to provide its services only to other telecom licensees.

IBC was also granted a special license for the provision of domestic fixed-line data communication. According to local media reports, IBC is permitted under its special license, to provide its services also to major commercial customers.

4B.13d - xii *Anti-Trust Regulation.*

Pursuant to the Israeli Restrictive Trade Practices Law, 1988, if the Antitrust Commissioner decides that the Israeli cellular market is oligopolistic, the Director General will have the authority to give instructions to all or some of the participants in our market, in order to, among other objectives, maintain or increase the competition level among the participants, the Director General's authority would include the ability to issue orders to remove or to ease entry or transfer barriers, to terminate a participant's activity, or otherwise to regulate the activities of the market.

4B.13e Our Mobile Telephone License

On April 7, 1998, the Ministry of Communications granted to us a general license to establish and operate a mobile telephone network in Israel as well as offer roaming services outside the State of Israel.

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

Our license allocates to us specified frequencies and telephone numbers.

Term. Our license was originally valid for a period of ten years (until April 2008), but has been extended until 2022. At the end of this period, the license may be extended for additional six-year periods upon our request to the Ministry of Communications, and a confirmation from the Ministry of Communications that we have met the following performance requirements:

- observing the provisions of the Telecommunications Law, the Wireless Telegraphy Ordinance, the regulations and the provisions of our license;
- acting to continuously improve our mobile telephone services, their scope, availability, quality and technology, and that there has been no act or omission by us harming or limiting competition in the mobile telephone sector;
- having the ability to continue to provide mobile telephone services of a high standard and to implement the required investments in the technological updating of our system in order to improve the scope of such services, as well as their availability and quality; and
- using the spectrum allocated to us efficiently, compared to alternative applications.

We believe that we will be able to receive an extension to the license upon request.

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

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

- A receiver or temporary liquidator is appointed for us, an order is issued for our winding up or we have decided to voluntarily wind up; or
- Partner, an Office Holder in Partner or an Interested Party in Partner or an Office Holder in an Interested Party of Partner is an Interested Party in a competing mobile radio telephone operator or is an Office Holder in a competing mobile radio telephone operator or in an interested party in a competing mobile radio telephone operator without first obtaining a permit from the Ministry of Communications to do so or has not fulfilled one of the conditions included in such permit. See "Item 4B.13e Our Mobile Telephone License-Our Permit Regarding Cross Ownership."

Our license authorizes us on a non-exclusive basis to establish and operate a mobile telephone network in Israel. The Ministry of Communications amended our license in August 2015 to include the provision of 4G services in the 1800 MHZ spectrum and to allow us access network sharing with Hot Mobile, another cellular operator at a bandwidth of up to 25 MHZ in the 1880 MHZ spectrum. See "Item 4B.9d Spectrum Allocation and Capacity".

License Conditions. Our license imposes many conditions on our conduct.

- We must at all times be a company registered in Israel.
- Our founding shareholders and their approved substitutes must hold, in the aggregate, at least 26% of each of our means of control. Furthermore, the maintenance of at least 26% of our means of control by our founding shareholders and their approved substitutes allows Partner to be protected from a license breach that would result from a transfer of shares for which the authorization of the Ministry of Communications was required, but not obtained.
- Israeli entities from among our founding shareholders and their approved substitutes must hold at least 5% of our issued and outstanding share capital and of each of our means of control. "Israeli entities" are defined as individuals who are citizens and residents of Israel and entities formed in Israel and controlled, directly or indirectly, by individuals who are citizens and residents of Israel, provided that indirect control is only through entities formed in Israel, unless otherwise approved by the Israeli Prime Minister or Minister of Communications.
- At least 10% of our Board of Directors must be appointed by Israeli entities, as defined above, provided that if the Board of Directors is comprised of up to 14 members, only one such director must be so appointed, and if the Board of Directors is comprised of between 15 and 24 members, only two such directors must be so appointed.
- Matters relating to national security shall be dealt with only by a Board of Directors' committee that has been formed for that purpose. The committee includes at least 4 members, of which at least one is an external director. Only directors with the required clearance and those deemed appropriate by Israel's General Security Service may be members of this committee. Resolutions approved by this committee shall be deemed adopted by the Board of Directors.
- The Ministry of Communications shall be entitled to appoint an observer to the Board of Directors and its committees, subject to certain qualifications and confidentiality undertakings.

Contracting with Customers. Pursuant to our license, we have submitted our standard agreement with customers to the Ministry of Communications for their examination. To date, we have not received any comments from the Ministry of Communications regarding this agreement.

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

Payments. Our license specifies the payments we may charge our subscribers. These include one-time installation fees, fixed monthly payments, airtime fees, payments for the use of other telecommunication systems, payments for handset maintenance and payments for additional services. In some of our tariff plans we have chosen to charge only for airtime and use of services. See “Item 4B.6c Tariff Plans.”

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

Conversely, we must allow other network operators to interconnect to our network. See “Item 4B.9h Interconnection”.

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

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

Universal Service. We are required to provide any service with the same coverage as our existing network. According to our license, we are required to provide 4G services within 12 months from the activation approval granted to us in August 2015 by the Ministry of Communications to launch 4G services.

Territory of License. In May 2000, we were also granted a license from the Israeli Civil Administration, to provide mobile services to the Israeli populated areas in the West Bank. The license is effective until February 1, 2022. The provisions of the general license described above, including as to its extension, generally apply to this license, subject to certain modifications. We believe that that we will be able to receive an extension to this license upon request.

Transfer of license, assets and means of control. Our license may not be transferred, mortgaged or attached without the prior approval of the Ministry of Communications.

We may not sell, lease or mortgage any of the assets which serve for the implementation of our license without the prior approval of the Ministry of Communications, other than in favor of a banking corporation which is legally active in Israel, and in accordance with the conditions of our license.

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

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

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

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

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

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

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

- the founding shareholders or their approved substitutes of Partner continue to hold in the aggregate at least 26% of the means of control of Partner;
- our Articles of Association include the provisions described in this paragraph;
- we act in accordance with such provisions;
- our Articles of Association provide that an ordinary majority of the voting power at the general meeting of Partner is entitled to appoint all the directors of Partner other than external directors.

The dormant share mechanism does not apply to our founding shareholders.

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

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

- Founding shareholders or their approved substitutes must hold at least 26% of the means of control of Partner.
- Israeli entities from among our founding shareholders and their approved substitutes must hold at least 5% of our issued share capital and of each of our means of control.
- The majority of our directors, and our general manager, must be citizens and residents of Israel.
- Neither the general manager of Partner nor a director of Partner may continue to serve in office if he has been convicted of certain legal offenses.

- No trust fund, insurance company, investment company or pension fund that is an Interested Party in Partner may: (a) hold, either directly or indirectly, more than 5% of any means of control in a competing mobile radio telephone operator without having obtained a permit to do so from the Ministry of Communications, or (b) hold, either directly or indirectly, more than 5% of any means of control in a competing mobile radio telephone operator in accordance with a permit from the MoC, and in addition have a representative or appointee who is an Office Holder in a competing mobile radio telephone operator, unless it has been legally required to do so, or (c) hold, either directly or indirectly, more than 10% of any means of control in a competing mobile radio telephone operator, even if it received a permit to hold up to 10% of such means of control.
- No trust fund, insurance company, investment company or a pension fund that is an Interested Party in a competing mobile radio telephone operator may: (a) hold, either directly or indirectly, more than 5% of any means of control in Partner, without having obtained a permit to do so from the Ministry of Communications; or (b) hold, directly or indirectly, more than 5% of any means of control in Partner in accordance with a permit from the Ministry of Communications, and in addition have a representative or appointee who is an Office Holder in Partner, unless it has been legally required to do so; or (c) hold, either directly or indirectly, more than 10% of any means of control in Partner, even if it received a permit to hold up to 10% of such means of control.
- Partner, an Office Holder or Interested Party in Partner, or an Office Holder in an Interested Party in Partner does not control a competing mobile radio telephone operator, is not controlled by a competing mobile radio telephone operator, by an Office Holder or an Interested Party in a competing mobile radio telephone operator, by an Office Holder in an Interested Party in a competing mobile radio telephone operator, or by a person or corporation that controls a competing mobile radio telephone operator.

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

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

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

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

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

- “**Controlling Corporation**” means a company that has control, as defined above, of a foreign mobile radio telephone operator.
- “**Interested Party**” means a person who either directly or indirectly holds 5% or more of any type of means of control, including holding as an agent.

Our Permit Regarding Cross Ownership

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

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

4B.13f Other Licenses

Domestic Fixed-line License. In January, 2007, the Ministry of Communications granted Partner Land-Line Communication Solutions Limited Partnership, which is fully owned by the Company, a license for the provision of domestic fixed-line telecommunications services. The license expires in twenty years but may be extended by the Ministry of Communications for successive periods of ten years provided that the licensee has complied with the terms of the license and has acted consistently for the enhancement of telecom services and their enhancement. The general conditions of the mobile telephone license described above, generally apply to this license, subject to certain modifications. In addition to any 10% share transfer requiring the prior approval of the Ministry of Communications, the license additionally requires approval prior to a third party acquiring the ability to exercise significant influence over us. In this context, holding 25% of our means of control is presumed to confer significant influence. The license was amended in February 2007 to grant us the right to offer VoB services using the infrastructure of Bezeq and HOT Telecom to access customers and to provide them with fixed-line telephony service. The License was further amended in July 2007 to incorporate the provision of transmission and data communications services that was previously provided for under a transmission license that was granted in July 2006. In March 2009, we were also granted a domestic fixed-line license to provide fixed-line services to the Israeli populated areas in the West Bank. The license is effective until March 2019.

012 Smile was also granted a similar domestic fixed-line license by the Ministry of Communications in December 2005 for 20 years that may be extended under similar conditions as our domestic fixed-line license and a license to provide domestic fixed-line services to the Israeli populated areas in the West Bank which is valid until February 2018.

ISP License. In March 2001, we received a special license granted by the Ministry of Communications, allowing us through our own facilities to provide internet access to fixed-line network customers. The license is valid until April 2018. We began supplying commercial ISP services beginning in January 2009. We were also granted a special license to provide ISP services to the Israeli populated areas in the West Bank which is valid until April 2018. We have applied for an extension to these licenses.

012 Smile was also granted a similar ISP license by the Ministry of Communications in December 2009 that is valid until June 2020 and a special license to provide ISP services to the Israeli populated areas in the West Bank which was valid until February 2016 and is expected to be replaced with a new license. We have been permitted by the Civilian Administration in the West Bank to continue providing the services until the new license is granted.

International Long Distance License. In December 2009, the Ministry of Communications granted 012 Smile, a license for the provision of International Long Distance services. The license expires in twenty years but may be extended by the Ministry of Communications for successive periods of ten years provided that the licensee has complied with the terms of the license and has acted consistently for the enhancement of telecom services and their enhancement. The Ministry of Communications also granted 012 Smile, a license for the provision of International Long Distance services to the Israeli populated areas in the West Bank which is valid until February 2018.

NTP License. In February 2007 we received a special license granted by the Ministry of Communications allowing us to provide certain telecom services, including providing and installing equipment and cabling, representing the subscriber with local fixed operators, and establishing and operating control facilities within a subscriber's premises. The license is valid until February 2017.

012 Smile was also granted a similar NTP license by the Ministry of Communications in December 2009 that is valid until December 2020.

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

4B.13g Network Site Permits

Permits of the Ministry of Environmental Protection

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

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

Local Building Permits

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

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

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

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

National Building Plan No. 36

National Building Plan No. 36 which came into effect on June 15, 2002 regulates the growth of telecommunications infrastructure in Israel. Chapter A of National Building Plan No. 36 sets forth the licensing requirements for the construction of mobile radio telephone infrastructure. National Building Plan No. 36 also adopts the radiation emission standards set by the International Radiation Protection Agency which were also previously adopted by the Ministry of Environmental Protection. We believe that we currently comply with these standards regarding our sites. National Building Plan No. 36 is in the process of being changed. On June 1, 2010, the National Council for Planning and Building approved the National Building Plan No. 36/A/1 version that incorporates all of the amendments to National Building Plan No. 36 ("the Amended Plan").

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

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

The Amended Plan sets forth the indemnification amounts as a percentage of the value of the depreciated property claims in accordance with the manner in which the licenses were granted as follows: If the license was granted in an expedited licensing route, which is intended for installations that are relatively small in accordance with the Amended Plan criteria, then the cellular companies will be required to compensate the local planning committees in an amount of 100% of the value of the depreciated property claim. If the license was granted in a regular licensing route, which is intended for larger installations in accordance with the Amended Plan criteria, then the cellular companies will be required to compensate the local planning committees in an amount of 80% of the value of the depreciated property claim. The Amended Plan is subject to governmental approval, in accordance with the Planning and Building Law. It is unknown when the government intends to approve the Amended Plan.

These recent developments may have a material adverse effect on our financial condition and results of operations, as well as plans to expand and enhance network coverage. For more information, see "Item 3D.1f In connection with some building permits, we may also be required to indemnify planning committees in respect of claims against them relating to the depreciation of property values that result from the granting of permits for network sites."

Wireless access devices

We have set up several hundred small communications devices, called wireless access devices, pursuant to a provision in the Telecommunications Law which we and other participants in cellular telecommunications, believe exempts such devices from the need to obtain a building permit. Beginning in 2008, following the filing of a claim that the exemption does not apply to cellular communications devices, the Attorney General filed an opinion regarding this matter stating that the exemption does apply to wireless radio access devices under certain conditions and instructed the Ministry of Interior to prepare regulations setting conditions that would limit the exemption to extraordinary circumstances. Following the instruction of the Attorney General, several inter-ministerial discussions and hearings have taken place without agreement being reached as to the final version of the regulations. The approval of the regulations was brought to the Economic Committee where the regulations were not approved. Following two petitions that were filed with the High Court of Justice opposing the Attorney General's recommendation that the exemption apply under certain conditions, in September 2010, the Supreme Court issued an interim order prohibiting further construction of wireless access devices in cellular networks in reliance on the exemption from the requirement to obtain a building permit. In February 2011, and in July 2012, the Supreme Court narrowed the scope of the interim injunction so that repair or replacement of existing wireless access devices is permitted under certain conditions that will be determined in a judgment. In September 2011, the Supreme Court ruled that it would allow the two new UMTS operators to erect new wireless access devices without a need for a permit in accordance with the terms set forth in the decision. If a definitive court judgment holds that the exemption does not apply to cellular devices at all or if the regulations finally approved do not apply the exemption to wireless access devices, this could adversely affect the Company's existing network. As a result, we may be required to remove existing devices and would not be able to install new devices on the basis of the exemption. Our network capacity and coverage would then be negatively impacted, which could have an adverse effect on our revenue and results of operations.

Other Approvals

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

We, like other cellular operators in Israel, provide repeaters, also known as bi-directional amplifiers, to subscribers seeking an interim solution to weak signal reception within specific indoor locations. In light of the lack of a clear policy of the local planning and building authorities, and in light of the practice of the other cellular operators, we have not requested permits under the Planning and Building Law for the repeaters. However, we have received from the Ministry of Communications an approval to connect the repeaters to our communications network. We have also received from the Ministry of Environmental Protection, the permits that are necessary for the repeaters.

In addition, we construct and operate microwave links as part of our transmission network. The various types of microwave links receive permits from the Ministry of Environmental Protection in respect of their radiation level. Based on an exemption in the Telecommunications Law, we believe that building permits are not required for the installation of most of these microwave links on rooftops, but if in the future the courts or the relevant regulator determine that building permits are necessary for the installation of these sites, it could have a negative impact on our ability to deploy additional microwave links, and could hinder the coverage, quality and capacity of our transmission network and our ability to continue to market our Fixed-Line Services effectively.

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

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

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

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

4C. Organizational Structure

We currently have five wholly-owned subsidiaries, Partner Future Communications 2000 Ltd., an Israeli corporation; Partner Net Ltd., an Israeli corporation; Partner Land-Line Communications Solutions LP, an Israeli limited partnership; Partner Business Communications Solutions, LLP, an Israeli limited partnership; and, since March 3, 2011, 012 Smile. 012 Smile has four wholly-owned subsidiaries, 012 Telecom Ltd., 012 Mobile GP Ltd., Golden Lines 012 Telecommunication Services 2001 Ltd., and 012 Mobile Limited Partnership, all Israeli corporations. Partner Future Communications 2000 Ltd. serves as the general partner and the Company serves as the limited partner of each of the limited partnerships.

In November 2013, the Company entered into a 15-year Network Sharing Agreement with HOT Mobile. Pursuant to the Network Sharing Agreement, the parties created a 50-50 joint venture, in the form of a limited partnership- P.H.I. Networks (2015) Limited Partnership, which will operate and develop a cellular network to be shared by both parties, starting with a pooling of both parties' radio access network infrastructures to create a single shared radio access network. The parties have also established a 50-50 company limited by shares under the name Net 4 P.H.I Ltd. to be the general partner of the limited partnership. See "Item 4B.9 Our Network".

4D. Property, Plant and Equipment

Headquarters

We lease our headquarter facilities in Rosh Ha-ayin, Israel, with a total of approximately 51,177 gross square meters (including parking lots). In the beginning of 2014, an amendment to the lease agreements for its headquarters facility in Rosh Ha'ayin was signed, according to which the lease term is extended until the end of 2024. The rental payments are linked to the Israeli CPI. We also lease five call centers in Haifa, Jerusalem, Rehovot, Rishon Lezion (012 call center) and Beer-Sheva. The leases for each site have different lengths and specific terms. We believe that our current call center facilities are adequate for the foreseeable future, and that we will be able to extend the leases or obtain alternate or additional facilities, if needed, on acceptable commercial terms.

Network

For a description of our telecommunications network, see "Item 4B.9 Our Network" above.

We lease most of the sites where our mobile telecommunications network equipment is installed throughout Israel. At December 31, 2015, we had 2,902 network sites (including micro-sites). The lease agreements relating to our network sites are generally for periods of two to ten years. We have the option to extend the lease periods up to ten years (including the original lease period).

The erection and operation of most of these network sites requires building permits from local or regional zoning authorities, as well as a number of additional permits from governmental and regulatory authorities, and we have had difficulties in obtaining some of these permits.

Difficulties obtaining required permits could continue and therefore affect our ability to maintain cell network sites. In addition, as we grow our subscriber base and seek to improve the range and quality of our services, we need to further expand our network, and difficulties in obtaining required permits may delay, increase the costs or prevent us from achieving these goals in full. See "Item 3D.1e We have had difficulties obtaining some of the building and environmental permits required for the erection and operation of our network sites, and some building permits have not been applied for or may not be fully complied with. These difficulties could have an adverse effect on the coverage, quality and capacity of our network. Operating network sites without building or other required permits, or in a manner that deviates from the applicable permit, may result in criminal or civil liability to us or to our officers and directors." And "Item 4B.13 Regulation".

In November 2013, the Company entered into a 15-year Network Sharing Agreement with HOT Mobile. Pursuant to the Network Sharing Agreement, the parties created a 50-50 joint venture, which is intended to operate and develop a cellular network to be shared by both companies, starting with a pooling of both companies' radio access network infrastructures to create a single shared pooled radio access network. See "Item 4B.9 Our Network".

Service Centers and Points of Sale

Lease agreements for our retail stores and service centers are for periods of two to ten years. We have the option to extend the lease agreements for different periods of up to ten additional years (including the original lease period). The average size of our retail stores and service center is approximately 250 square meters. See also Note 19 to the consolidated financial statements.

4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following operating and financial review and prospects are based upon and should be read in conjunction with our financial statements and selected financial data, which appear elsewhere in this report. You should also read the risk factors appearing in Item 3D of this annual report for a discussion of a number of factors that affect and could affect our financial condition and results of operations.

5A. Operating Results

5A.1 OVERVIEW

5A.1a Key Financial and Operating Data

The table below sets forth a summary of selected financial and operating data for the years ended December 31, 2013, 2014 and 2015.

	Year ended December 31,		
	2013	2014	2015
Revenues (NIS million)	4,519	4,440	4,111
Operating profit (NIS million)	409	400	107
Income (loss) before taxes (NIS million)	198	241	(36)
Profit (loss) for the Year (NIS million)	135	162	(40)
Capital expenditures (NIS million)	413	429	354
Cash flows from operating activities (NIS million)	1,539	951	922
Cash flows from investing activities (NIS million)	(498)	(431)	(356)
Cash flow from operating activities net of investment activities (NIS million)	1,041	520	566
Cellular Subscribers (end of period, thousands)	2,956	2,837	2,718
Annual cellular churn rate (%)	39%	47%	46%
Average monthly revenue per cellular subscriber (ARPU) (NIS)	83	75	69

5A.1b Business Developments in 2015

In 2015, competition in the Israeli telecommunications market remained intense, at a similar level as in 2014. As a result, the continued substantial price erosion in the market had a further significant negative impact on the Company's business results, with a loss of NIS 40 million recorded for the year. As an illustration of the level and increase in competition in the cellular market, approximately 2.5 million cellular subscribers switched operators within the Israeli market (with number porting) in 2015, largely unchanged from the number of switchers in 2014, compared with approximately 1.8 million in 2013. Significant price erosion continued to be caused by the amount of cellular subscribers who moved between different rateplans or airtime packages (generally with a lower monthly fee) within the Company. As in 2014, in 2015, subscribers switched rateplans or packages over one million times (including subscribers who switched more than once) within the Company, a significant increase in the number of switches compared with 2013.

At the end of December 2015, the Company's active cellular subscriber base (including mobile data and 012 Mobile subscribers) was approximately 2.72 million, including approximately 2.2 million post-paid subscribers or 79% of the base, and approximately 562,000 pre-paid subscribers, or 21% of the subscriber base. Total cellular market share (based on the number of subscribers) at the end of 2015 was estimated to be approximately 27%, compared with 28% in 2014 and 29% in 2013.

Over 2015, the cellular subscriber base declined by approximately 119,000. The pre-paid subscriber base decreased by approximately 143,000, while the post-paid subscriber base increased by approximately 24,000. The decrease in the pre-paid subscriber base was largely attributed to the pre-paid subscribers moving to post-paid subscriber packages as a result of the significant price erosion (and hence increasing attractiveness) in these products, as well to increased competition for pre-paid subscribers.

The annual churn rate for cellular subscribers in 2015 was 46%, a slight decrease compared with 47% in 2014 and 39% in 2013, mainly reflecting the continued intense competition in the cellular subscriber market.

The monthly Average Revenue Per User (ARPU) for cellular subscribers for the year 2015 was NIS 69 (US\$ 18), a decrease of approximately 8% from NIS 75 in 2014. The decrease mainly reflected the continued price erosion in the key cellular services including airtime, content, data and browsing, due to the persistent fierce competition in the cellular market, partially offset by an increase in revenues from wholesale services (MVNO and national roaming) provided to other operators hosted on the Company's network and in particular as a result of the Right of Use Agreement reached with HOT Mobile. See "Item 5A.1e Right of Use Agreement with HOT Mobile".

In order to mitigate the impact of the competition on the price erosion and decrease in service revenues, the Company continued to adjust its cost structure and to implement operational efficiency measures through 2015, which was reflected in a decrease in 2015 in total operating expenses of NIS 127 million from 2014 (including cost of service revenues (NIS 2,592 million in 2015) and selling, marketing and administrative expenses (NIS 640 million in 2015), and excluding depreciation, amortization and impairment expenses (NIS 769 million in 2015); this measure is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies). This decrease followed a decrease in operating expenses in 2014 of NIS 201 million compared with 2013. The decrease in operating expenses in 2015, mainly reflected decreases in expenses related to payments to transmission, communication and content providers and the impact of efficiency measures undertaken including a reduction in payroll and related expenses resulting from the reduction in the size of the Company workforce by approximately 15% on an average basis (average of workforce at beginning and end of year).

The impact of the decrease in service revenues was also mitigated in 2015 through an increase in the gross profit from equipment sales of NIS 11 million. The increase in profit from equipment sales reflected higher profit margins, mainly due to the change in product mix. In addition, our willingness to offer customers long-term installment plans boosted purchases and contributed to the rise in profits from such sales. However, the need to service our existing debt may in the future restrict our ability to continue selling equipment through long-term installment plans, thereby limiting our ability to continue benefiting from one of the key current drivers of equipment sales and total Company profits. See "Item 5D.2 Outlook" and "Item 3D.2b Our level of indebtedness could adversely affect our business, profits and liquidity. Furthermore, the continued decline in cash flow (excluding payments from Orange with respect to the Settlement Agreement) and difficulties in generating sustainable cash flow may impair our ability to repay our debt and reduce the level of indebtedness."

5A.1c Settlement Agreement with Orange Brand Services Ltd.

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

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

5A.1d Network Sharing Agreement with HOT Mobile

In November 2013, the Company entered into a 15-year Network Sharing Agreement with HOT Mobile. Pursuant to the Network Sharing Agreement, the parties created a 50-50 joint venture, which is intended to operate and develop a radio access network to be shared by both parties, starting with a pooling of both parties' radio access network infrastructures to create a single shared pooled radio access network. See "Item 4B.9 Our Network."

According to the provisions of the Network Sharing Agreement, HOT Mobile would pay Partner a onetime amount of NIS 250 million ("Lump Sum"), by the beginning of year 2017, unless one of the parties exercises an option granted to it under the Network Sharing Agreement pursuant to which a portion of the Lump Sum will be paid earlier ("Option"). Following the earlier of January 1, 2017 or the date of payment of such a portion of the Lump Sum upon exercise of the Option, each party will bear half of the capital expenditures relating to the shared network. The bearing of the operating costs of the shared network will be according to a pre-determined mechanism, according to which one half of the operating costs will be shared equally by the parties, and one half will be divided according to the relative volume of traffic of each party in the shared network. Partner expects that the Network Sharing Agreement will provide material financial benefits to Partner in terms of both the anticipated upfront payment by HOT Mobile (to be made in January 2017, or earlier if either party exercises its right under the agreement to advance the payment date) and savings in operational expenses and capital investments; however, such financial benefits are dependent on factors set forth in the related risk factor. See "Item3D.2d The network sharing agreement entered into by Partner may not provide the anticipated benefits and may lead to unexpected costs. Network sharing and similar agreements entered into by our competitors may place us at a competitive disadvantage."

In February 2016, HOT Mobile exercised its option under the Network Sharing Agreement to advance the payment date and therefore payment of the Lump Sum is expected to be received during 2016. The Lump Sum will be recognized as deferred revenue which is to be amortized to the income statement over a period of eight years, which is determined to be the shorter of the expected period of the arrangement or the expected life of the related assets. In view of the exercise of the option, capital expenditures and operating costs shall be shared according to the mechanisms described above, from April 2016.

5A.1e Right of Use Agreement with HOT Mobile

Partner and HOT Mobile entered into a right of use agreement which took effect in November 2013, in tandem with the Network Sharing Agreement, and is valid until January 4, 2017. Under the right of use agreement, Partner provides services to HOT Mobile in the form of a right of use of Partner's cellular network. According to the right of use agreement, HOT Mobile pays Partner fixed base payments with additional variable payments, based, among other things, on traffic volume exceeding a defined threshold. In the event that any of the parties exercises the Option referred to in the Network Sharing Agreement, and Hot Mobile pays the relevant portion of the Lump Sum earlier than January 1, 2017, the Capex-Opex Mechanism will become effective and Hot Mobile shall cease paying the payments payable under the ROU with respect to the period that follows the occurrence of the foregoing.

In February 2016, HOT Mobile exercised its option under the Network Sharing Agreement to advance the payment date of the Lump Sum. As a result, Hot Mobile shall cease paying the payments payable under the right of use agreement from April 2016. In 2015, revenues recorded related to the right of use agreement totaled approximately NIS 120 million.

5A.1f Acquisition of 012 Smile

On March 3, 2011, the Company completed the acquisition of all of the issued and outstanding shares of 012 Smile Telecom Ltd. ("012 Smile"), from Merhav-Ampal Energy Ltd. ("Ampal"). 012 Smile is an Israeli private company, which provides international long distance services, internet services and local telecommunication fixed-line services (including telephony services using VoB). 012 Smile had revenues of approximately NIS 1,112 million during the 11 months starting February 1, 2010, the date on which 012 Smile's business activities began to operate under a new company.

The purchase price for the acquisition of 012 Smile was NIS 650 million, which included the acquisition of all of the outstanding shares of 012 Smile and a loan from the previous shareholder to 012 Smile. As part of the acquisition, we also guaranteed the bank loans and other bank guarantees, which were provided to 012 Smile, in a total amount of approximately NIS 800 million. According to the purchase agreement, 012 Smile assigned to Ampal the right to receive payments due from a third party in an amount of approximately NIS 40 million.

At the time of the acquisition, the purchase assumed an enterprise value for 012 Smile of approximately NIS 1.45 billion. This included fixed assets, intangible assets of customer relations, brand name, Right of Use ("ROU") of international transmission cables and goodwill. 012 Smile was financed principally through long term bank loans totaling approximately NIS 500 million that have an index (Israeli consumer price index ("CPI")) linked rate of 3.42% with a final maturity at the end 2019. During 2012, 012 Smile prepaid the current portion of the outstanding linked principal amount of the loan (NIS 31 million), which was due originally on December 31, 2012. As of December 31, 2015, the principal due by 012 Smile, including the CPI adjustment, was NIS 198 million.

Impairment of Fixed-Line Assets and Goodwill as of December 31, 2011.

During December 2011, Bezeq International Ltd. completed the installation of an underwater cable between Israel and Italy and began commercial use thereafter. In addition, Tamares Telecom Ltd. was in the final stages of laying another underwater cable which was completed in January 2012, allowing new communication channels between Israel and Western Europe. The additional capacity significantly increased the level of competition in the market for international connectivity services that, until December 2011, had been comprised of a sole monopoly supplier. The increased competition in the market for international connectivity services during the fourth quarter of 2011 that lead to a sharp decline in prices and the Company's expectations for increased competition in the retail ISP market, that would lead to a decrease in prices and market share, indicated the need to perform an impairment test on certain assets of the fixed-line segment. The impairment test as of December 31, 2011, was performed by management with the assistance of an external independent assessor, Giza Singer Even Ltd., with the recoverability of the relevant assets being assessed based on value-in-use calculations. As a result of the testing, impairment charges in a total amount of NIS 235 million were recognized for the fixed-line business in 2011:

- a) Trade name by NIS 14 million, recorded in selling and marketing expenses;
- b) Customer relationships by NIS 73 million, recorded in selling and marketing expenses; and
- c) Right of use by NIS 148 million, recorded in the cost of revenues.

In addition, the Company's management performed, as required, its annual impairment review of goodwill, with the assistance of Giza Singer Even Ltd., again assessing recoverability of fixed-line segment assets based on value-in-use calculations. As a result of the impairment test, the Company recorded an impairment charge to goodwill in respect of the fixed-line business units in the amount of NIS 87 million in 2011. The total impact of the impairment charges on operating profit in 2011 was a reduction of NIS 322 million. The total impact on profit, including the resulting increase in deferred tax assets, net, of NIS 11 million, was a reduction of NIS 311 million.

In addition, the Company recorded an impairment of fixed-line subscriber acquisition costs in the total amount of NIS 27 million in the second half of 2011, following an amendment to the Telecommunications Law which limits subscriber exit fines in the fixed-line market.

Impairment test of Fixed-Line Goodwill as of December 31, 2013, 2014 and 2015.

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

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

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

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

Sensitivity Analysis:

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

Impairment of Fixed-Line Assets as of December 31, 2015.

In 2015, the Group decided to cease using the "012 Smile" trade name in 2017. This change in business induced the Group to determine that an indicator of impairment exists for the fixed-line segment. See also information with respect to change in estimate of useful life of the intangible asset trade name in Note 4(a)(2) and 4(a)(3) to our consolidated financial statements.

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

(i) The Group reviewed the recoverability of the VOB/ISP assets. As a result, an impairment charge in a total amount of NIS 98 million was recognized. The impairment charge was allocated to the assets of the CGU pro rata, on the basis of the carrying amount of each asset, provided that the impairment did not reduce the carrying amount of an asset below the highest of its fair value less costs to sell and its value-in-use, and zero. Accordingly, the following impairment charges were recorded in the assets of the above CGU (see Note 13 to our consolidated financial statements):

- (a) Right of use by NIS 76 million, recorded in cost of revenues;
- (b) Customer relationships by NIS 8 million, recorded in selling and marketing expenses;
- (c) Computers and information systems by NIS 7 million, recorded in cost of revenues;
- (d) Communication network by NIS 5 million, recorded in cost of revenues; and
- (e) Trade name by NIS 2 million, recorded in selling and marketing expenses.

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

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

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

5A.1g Agreement for the Upgrade of Our Existing Networks and the Deployment of Fourth Generation Network in Israel

On October 25, 2010, the Company signed an agreement with LM Ericsson Israel Ltd. ("Ericsson") for the upgrade of its then existing networks and the deployment of a fourth generation network in Israel (the "Agreement") for approximately U.S \$100 million. The Agreement includes the upgrade, replacement and the expansion of certain parts of the Company's existing cellular and fixed-line networks and the maintenance of its networks, including enhancement of the Company's abilities with respect to the cellular and fixed-line ISP services it provides. The commercial operation of the fourth generation network by the Company is subject to the allocation of the relevant frequencies by the Ministry of Communications. The initial term of the all-inclusive agreement with Ericsson ended on December 31, 2014. Towards the end of the initial term, we began an examination process to determine the scope of the deliverables and services which have actually been provided by Ericsson under the agreement. We extended the initial period by an additional period of one year for the provision of support and maintenance services until the end of 2015 and again until the end of 2016. We have an option to extend the agreement by eight additional periods of one year each.

5A.1h Bezeq Agreement

In April 2012, the Company entered into a five-year agreement with Bezeq, the Israel Telecommunication Corp., Ltd., effective as of January 1, 2012, for the supply of transmission services for use in Partner's mobile network. According to the agreement, the minimum annual commitment was NIS 55 million for the year 2012 and will gradually increase to NIS 71 million for the year 2016 due to the increase in the scope of the capacity to be purchased in accordance with the layout agreed upon by the parties. The minimum commitment as of December 31, 2014 was NIS 140 million. The minimum commitment as of December 31, 2015 is NIS 71 million. Commencing April 2015, Hot Mobile undertakes its share in these expenses through PHI (the joint venture created with HOT Mobile pursuant to the network sharing agreement) according to the OPEX-CAPEX mechanism; see also Note 9 to the consolidated financial statements.

5A.1i Significant regulatory developments

For information regarding developments which have had and may have a significant impact on our operating results, see "Item 3D.1 RISKS RELATING TO THE REGULATION OF OUR INDUSTRY" and "Item 4B.13 Regulation".

5A.1j Revenues

We derive revenues from both rendering services and selling equipment.

Our principal source of revenues is from the sale of cellular network services to subscribers, primarily network airtime and internet browsing fees, and content and data fees (including SMS) as well as interconnect fees from other operators, fees for roaming, services, fees for extended handset warranty and fees from other operators (virtual and network) that use our network to provide services to their customers.

The fixed-line business segment derives revenues from a number of services provided over fixed-line networks including transmission services, international long distance services, PRI lines, VoB telephony services, SIP trunks for business sector customers and ISP services (including infrastructure and access services).

Cellular equipment revenues are derived from sales of cellular handsets, tablets (including WI-FI- only tablets), laptops, datacards and modems, related communications equipment, car kits, accessories and spare parts. The Company also sells a variety of digital audio-visual equipment to cellular segment customers, including televisions, digital camera, games consoles, earphones and other similar devices.

Revenues from equipment and devices sales in the fixed line business segment are derived from sales of landline phones, modems, domestic routers, servers, smartboxes and related equipment, WI-FI-only tablets and other telecommunications and audio-visual devices to fixed-line segment customers.

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

5A.1k Cost of Revenues

The principal components of our cost of revenues are:

- Transmission, communication and content providers
- Cost of equipment and accessories
- Depreciation and amortization (including impairment)
- Wages, employee benefits expenses and car maintenance
- Operating lease, rent and overhead expenses
- Network and cable maintenance
- Amortization of rights of use (including impairment)
- Costs of handling, replacing or repairing equipment
- Car kit installation, IT support, and general operating expenses
- Internet infrastructure and service providers (“ISPs”)

5A.1l Selling and Marketing Expenses

The principal components of our selling and marketing expenses are:

- Wages, employee benefits expenses and car maintenance
- Selling commissions, net
- Depreciation and amortization (including impairment)
- Advertising and marketing
- Operating lease, rent and overhead expenses

5A.1m General and Administrative Expenses

The principal components of our general and administrative expenses are:

- Wages, employee benefits expenses and car maintenance
- Bad debts and allowance for doubtful accounts
- Professional fees
- Credit card and other commissions
- Depreciation

5A.1n Income with Respect to the Settlement Agreement with Orange

Income with respect to the Settlement Agreement with Orange consists of recognized payments received by Partner thereunder (see Item "5A.1c Settlement Agreement with Orange Brand Services Ltd.").

5A.1o Other Income, Net

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

- Unwinding of trade receivables

- Capital gain (loss) from sale of property and equipment

5A.1p Finance Costs, Net

The principal components of our finance expenses are:

- Interest expenses
- Net foreign exchange rate losses

The principal components of our finance income are:

- CPI linkage income
- Fair value gain from derivative financial instruments, net
- Interest income from cash equivalents

5A.1q Key Cellular Business Indicators (Operating Data)

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

- Number of subscribers
- Average monthly revenue per subscriber (ARPU)
- Churn rate

In previous years, the Company also considered Minutes of Use (MOU) to be a key cellular business indicator. However, in view of the continued increase in the proportion of cellular subscribers with bundled packages that include large or unlimited quantities of minutes, from 2014, the Company held that reporting MOU was no longer relevant to understanding the results of operation.

5A.1r Critical Accounting Estimates and Judgments

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. See also Note 4 to the consolidated financial statements.

5A.1r - i Critical accounting estimates and assumptions

(1) Estimating service revenues earned but not yet billed

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

(2) Assessing the useful lives of assets

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

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

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

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

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

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

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

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

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

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

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

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

Sensitivity Analysis:

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

(5) Assessing allowance for doubtful accounts

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

(6) Considering uncertain tax positions

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

5A.1r - ii Critical judgments in applying the Company's accounting policies

(1) Considering the likelihood of contingent losses and quantifying possible settlements:

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

(2) Considering sales with multiple deliverables

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

(3) Accounting treatment for the investment in PHIs

The Board of Directors of Net 4 P.H.I Ltd., consists of three directors nominated by the Company, three directors nominated by Hot Mobile and one independent director who will act as a chairman. Net 4 P.H.I Ltd. controls PHI. This governance provides that the Company does not control PHI nor does it have joint control over it, and the Company accounts for its investment in PHI according to the equity method, see also Note 2 (c) (2) and Note 9 to the consolidated financial statements.

5A.2 RESULTS OF CONSOLIDATED OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2015 COMPARED TO THE YEAR ENDED DECEMBER 31, 2014

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

* Includes impairment charges in the fixed-line segment, see Note 13 to our consolidated financial statements.

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

* Representing an amount of less than 1 million.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

See also Note 25 to our consolidated financial statements.

Profit (Loss). Reported loss in 2015 was NIS 40 million (US\$ 10 million), a decrease of NIS 202 million compared with profit of NIS 162 million in 2014. Profit before the impact of the impairment in the amount of NIS 72 million (after income tax), was NIS 32 million (US\$ 8 million) in 2015, a decrease of 80% from NIS 162 million in 2014. Based on the weighted average number of shares outstanding during 2015, basic loss per share or ADS, was NIS 0.26 (US\$ 0.06), compared to basic earnings per share of NIS 1.04 in 2014.

For information regarding potential downward impacts on profits in 2016, see “Item 5D.2 Outlook.”

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

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

5A.2a Cellular Services Segment

The impairment charge on fixed-line assets in 2015 did not have any impact on the results for the cellular services segment.

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

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

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

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

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

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

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

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

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

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

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

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

5A.2b Fixed-Line Services Segment

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

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

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

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

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

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

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

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

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

5A.3 RESULTS OF CONSOLIDATED OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2014, COMPARED TO THE YEAR ENDED DECEMBER 31, 2013

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

Total Revenues. Total revenues in 2014 were NIS 4,400 million, a decrease of 3% from NIS 4,519 million in 2013.

Revenues from services. Annual service revenues totaled NIS 3,408 million in 2014, decreasing by 10% from NIS 3,784 million in 2013.

Revenues from equipment. Equipment revenues in 2014 totaled NIS 992 million, an increase of 35% from NIS 735 million in 2013. The increase reflected both an increase in the number of devices sold (largely explained by a significant increase in the sales of tablets and by the launch during 2014 of sales of a variety of digital audio-visual equipment including televisions, digital camera, games consoles and related equipment) and in the average price per device sold due to the change in product mix. (See also the comment regarding Gross profit from equipment sales below.)

Gross profit from service revenues. The gross profit from service revenues in 2014 was NIS 753 million, compared with NIS 967 million in 2013, a decrease of 22% (see Note 22 to our consolidated financial statements for a breakdown of cost of revenues expenses).

Gross profit from equipment sales. The gross profit from equipment sales in 2014 was NIS 228 million, compared with NIS 42 million in 2013, an increase of 443%, reflecting both the relatively high profit margins of sales of devices other than cellular handsets, and the increase in the number of devices sold, as explained above.

A significant majority of sales of equipment were offered together with long term financing plans, whereby the customer pays for the equipment through monthly payments (generally over 12 to 36 months).

Operating expenses. Operating expenses (selling, marketing, general and administrative expenses) totaled NIS 631 million in 2014, a decrease of 7% from 2013, the decrease largely a result of a decrease in payroll and related expenses, and in bad debt and allowance for doubtful account expenses (see Note 22 to our consolidated financial statements for a breakdown of cost of selling and marketing expenses, and of general and administrative expenses).

Total operating expenses. Total operating expenses ("Opex", including cost of service revenues (NIS 2,655 million in 2014), selling, marketing and administrative expenses (NIS 631 million in 2014) and excluding depreciation and amortization expenses (NIS 696 million in 2014); this measure is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies) totaled NIS 2,590 million in 2014, a decrease of 7% or NIS 201 million from 2013, largely a result of a decrease in payments to transmission, communication and content providers and the impact of efficiency measures undertaken, including the reduction in the Company workforce by approximately 20% on an average basis (average of workforce at beginning and end of year). Including depreciation and amortization expenses, Opex in 2014 decreased by 6% compared with 2013.

Operating profit. Operating profit for 2014 was NIS 400 million, a decrease of 2% compared with NIS 409 million in 2013.

Finance costs, net. Finance costs, net in 2014 were NIS 159 million, a decrease of 25%, compared with NIS 211 million in 2013. The decrease was mainly due both to a decrease in interest expenses resulting from the lower level of average debt, as well as lower CPI linkage expenses as a result of a decrease of 0.1% in the CPI level in 2014 compared with an increase of 1.9% in 2013. These effects were partially offset by the impact of losses from foreign exchange movements in 2014 compared with foreign exchange gains in 2013.

Profit before income tax. Profit before income taxes for 2014 was NIS 241 million, an increase of 22% from NIS 198 million in 2013.

Income taxes on profit. Income taxes on profit for 2014 were NIS 79 million, an increase of 25% from NIS 63 million in 2013.

The effective tax rate for 2014 was 33%, compared with 32% in 2013. The increase in the effective tax rate was mainly due to the increase in the statutory rate of corporate tax from 25% in 2013 to 26.5% in 2014.

Profit. Profit for 2014 was NIS 162 million, an increase of 20% compared with a profit of NIS 135 million in 2013. Based on the weighted average number of shares outstanding during 2014, basic earnings per share or ADS, was NIS 1.04, an increase of 20% compared to NIS 0.87 in 2013.

Adjusted EBITDA. Adjusted EBITDA totaled NIS 1,096 million, a decrease of 2% from NIS 1,114 million in 2013. As a percentage of total revenues, Adjusted EBITDA in 2014 was 25%, unchanged from 2013.

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

5A.3a Cellular Services Segment

Total revenues. Total revenues for the cellular segment in 2014 were NIS 3,556 million, a decrease of 1% from NIS 3,610 million in 2013.

Revenues from services. Service revenues for the cellular segment in 2014 were NIS 2,618 million, decreasing by 10% from NIS 2,907 million in 2013. The decrease was mainly a result of the price erosion of post-paid and pre-paid cellular services, following increased competition mainly due to the activity of new competitors (new operators and MVNOs), who significantly lowered the price of cellular packages offering unlimited amounts of voice minutes and SMS to extremely low levels. As an illustration of the level and increase in competition in the cellular market, approximately 2.4 million cellular subscribers switched operators within the Israeli market (with number porting) in 2014, compared with approximately 1.8 million in 2013, an increase of over 30%.

Significant price erosion was also caused by the amount of cellular subscribers who moved between different rateplans or airtime packages (generally with a lower monthly fee) within the Company. In 2014, cellular subscribers switched rateplans or packages over one million times (including subscribers who switched more than once) within the Company, an increase of over 50% in the number of switches compared with 2013.

The decrease also reflected the lower post-paid cellular subscriber base which was approximately 0.7% lower on an average basis (average of subscriber base at beginning and end of year) in 2014 compared with 2013, and the lower pre-paid cellular subscriber base which was approximately 10% lower on an average basis (average of subscriber base at beginning and end of year) in 2014 compared with 2013, as well as lower roaming services revenues, as a result of price erosion in roaming services.

The decrease in service revenues from our subscribers was partially offset by an increase in revenues from wholesale services provided to other operators hosted on the Company's network, particularly as a result of the Right of Use agreement reached with Hot Mobile.

Pre-paid cellular subscribers contributed service revenues in a total amount of approximately NIS 300 million in 2014, a decrease of 17% from approximately NIS 360 million in 2013, as a result of the price erosion in pre-paid services and the decrease in the number of pre-paid subscribers, which was largely attributed to the pre-paid subscribers moving to post-paid subscriber packages as a result of the significant price erosion (and hence increasing attractiveness) in these products, as well as increased competition for pre-paid subscribers.

Revenues from equipment. Revenues from equipment sales for the cellular segment (including cellular handsets, WI-FI-only tablets, 3G/LTE tablets, laptops, datacards and modems, related equipment, car kits and accessories, and digital audio-visual equipment) in 2014 totaled NIS 938 million, increasing by 33% from NIS 703 million in 2013. The increase reflected both an increase in the number of devices sold (largely explained by a significant increase in the sales of tablets and by the launch during 2014 of sales of a variety of digital audio visual equipment including televisions, digital camera, games consoles and related equipment) and in the average price per device sold due to the change in product mix. A significant majority of sales of equipment were offered together with long term financing plans, whereby the customer pays for the equipment through monthly payments (generally over 12 to 36 months).

Gross profit from equipment sales. The gross profit from equipment sales for the cellular segment in 2014 was NIS 211 million, compared with NIS 39 million in 2013, an increase of 441%, reflecting both the relatively high profit margins of sales of devices other than handsets and the increase in the number of devices sold, as explained above.

Cost of service revenues. The cost of service revenues (excluding inter-segment costs) decreased by 5% from NIS 2,070 million in 2013 to NIS 1,963 million in 2014. As explained above, this largely reflected decreases in expenses related to payments to transmission, communication and content providers (in part due to lower interconnect expenses following the reduction in the fixed line interconnect tariff by approximately 60% in December 2013) and a decrease in payroll and related expenses.

Operating expenses. Operating expenses (selling, marketing, general and administration expenses) for the cellular segment in 2014 amounted to NIS 509 million, decreasing by 6% from NIS 544 million in 2013. The decrease mainly reflected a decrease in payroll and related expenses, as well as decreases in bad debts and allowance for doubtful accounts expenses and marketing and advertising expenses, partially offset by higher selling commission, net, expenses, following the increase in the number of sales in 2014.

Total operating expenses. Total operating expenses for the cellular segment (including cost of service revenues, selling, marketing and administrative expenses and excluding depreciation and amortization expenses) totaled NIS 2,116 million in 2014, a decrease of 5% or NIS 123 million from 2013, largely reflecting a decrease in expenses related to payments to transmission, communication and content providers (in part due to lower interconnect expenses following the reduction in the fixed line interconnect tariff by approximately 60% in December 2013) and a decrease in payroll and related expenses. See also Note 22 to our consolidated financial statements. Including depreciation and amortization expenses, operating expenses also decreased by 5%.

Operating profit. Overall, operating profit for the cellular segment in 2014 was NIS 221 million, decreasing by 6% compared with NIS 234 million in 2013, largely reflecting the impact of the decrease in service revenues, partially offset by the increase in gross profits from equipment sales and the reduction of operating expenses, as described above.

Adjusted EBITDA. Adjusted EBITDA for the cellular segment was NIS 762 million in 2014, decreasing by 3% from NIS 784 million in 2013, for the same reasons as the decrease in operating profit. As a percentage of total cellular revenues, Adjusted EBITDA for the cellular segment in 2014 was 21%, compared with 22% in 2013.

5A.3b Fixed-Line Services Segment

Total revenues. Total revenues in 2014 for the fixed-line segment were NIS 1,058 million, a decrease of 5% compared with NIS 1,117 million in 2013.

Revenues from services. Service revenues for the fixed-line segment totaled NIS 1,004 million in 2014, a decrease of 7% compared with NIS 1,085 million in 2013. The decrease mainly reflected price erosion in fixed-line services including local fixed-lines, international calls and internet services. The price erosion resulted from increased competition in the various fixed-line and ISP markets and the market for international calls. The decrease also reflected lower interconnect revenues following the reduction in the fixed line interconnect tariff by approximately 60% in December 2013.

Revenues from equipment. Revenues from equipment sales for the fixed-line segment in 2014 totaled NIS 54 million, an increase of 69% compared with NIS 32 million in 2013. The increase mainly reflected the launch of sales of tablets to fixed-line business segment customers in 2014.

Gross profit from equipment sales. The gross profit from equipment sales for the fixed-line segment in 2014 was NIS 17 million, compared with NIS 3 million in 2013, an increase of 467%, again mainly reflecting the launch of sales of tablets to fixed-line business segment customers in 2014.

Cost of service revenues. The cost of service revenues (excluding inter-segment costs) for the fixed-line segment decreased by 7% from NIS 747 million in 2013, to NIS 692 million in 2014. The decrease mainly reflected a decrease in expenses related to payments to transmission, communication and content providers (in part due to lower interconnect expenses following the reduction in the fixed line interconnect tariff by approximately 60% in December 2013), a decrease in payroll and related expenses, and a decrease in expenses related to payments to internet infrastructure and service providers (ISP).

Operating expenses. Operating expenses (selling, marketing, general and administration expenses) for the fixed-line segment in 2014 amounted to NIS 122 million, a decrease of 10% from NIS 135 million in 2013. The decrease mainly reflected a decrease in payroll and related expenses, as well as a decrease in bad debts and allowance for doubtful accounts expenses for the fixed-line segment.

Total operating expenses. Total operating expenses for the fixed-line segment (including cost of service revenues, selling, marketing and administrative expenses and excluding depreciation and amortization and impairment charges) totaled NIS 688 million in 2014, a decrease of 9% or NIS 72 million from 2013. The decrease mainly reflected a decrease in expenses related to payments to transmission, communication and content providers (in part due to lower interconnect expenses following the reduction in the fixed line interconnect tariff by approximately 60% in December 2013), a decrease in payroll and related expenses, and a decrease in expenses related to payments to internet infrastructure and service providers.

Operating profit. Operating profit for the fixed-line segment was NIS 179 million in 2014, an increase of 2% compared to NIS 175 million in 2013. The increase in operating profit reflected the impact of the reduction in operating expenses and the increase in gross profit from equipment sales, which more than offset the decrease in service revenues.

Adjusted EBITDA. Adjusted EBITDA for the fixed-line segment increased by 1% from NIS 330 million in 2013 to NIS 334 million in 2014, for the same reasons as the increase in operating profit. As a percentage of total fixed-line revenues, Adjusted EBITDA for the fixed-line segment in 2014 was 32%, compared with 30% in 2013.

5A.4 SEASONALITY

Our service revenues and profitability show some seasonal trends over the year, resulting mainly from revenues from roaming services which tend to increase during Jewish holiday periods (generally in the second and fourth quarters) and during the summer months.

Whilst most of our post-paid cellular tariff plans for private customers are bundles including unlimited amounts of call minutes and SMS, for other cellular subscribers in plans which charge according to usage, airtime minutes and consequently airtime revenues are affected by the number of monthly work days and daylight hours in the day, which varies throughout the year. In addition, airtime revenues for such subscribers are lower in February, which is a shorter than average month. However, due to the increased penetration of bundled plans which offer unlimited or fixed amounts of airtime and SMS usage, the impact of such effects has significantly decreased over the last two years. There is no assurance that these trends will continue in the future.

NIS in millions	Three months ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Unaudited)			
Service Revenues				
2013	961	950	951	922
2014	876	862	862	808
2015	759	757	760	716

5A.5 IMPACT OF EXCHANGE RATE FLUCTUATIONS AND INFLATION

Substantially all of our revenues and a majority of our operating expenses are denominated in shekels. However, in recent years, approximately between one fifth and one third of our operating expenses (excluding depreciation), including a substantial majority of our handset purchases, were linked to non-NIS currencies, mainly the US dollar. These expenses related principally to the acquisition of handsets, where the price paid by us is based mainly on US dollars. In addition, a substantial amount of our capital expenditures (including with respect to our networks) are incurred in, or linked to, non-NIS currencies, mainly the US dollar. See "ITEM 11 Quantitative And Qualitative Disclosures About Market Risk".

Our Notes payable series B, C and our borrowings in a total principal amount of NIS 1,014 million as of December 31, 2015, are currently in NIS and are linked to the CPI. If the CPI increases, we may not be permitted to raise our tariffs in a manner that would fully compensate for any increase in our finance expenses. In 2015, the CPI decreased 0.9 %, incurring income of NIS 9 million in our finance costs, net, compared to a CPI decrease of 0.1% in 2014, which incurred finance expenses of NIS 3 million. The CPI for each month is published on the 15th day of the following month; references above to the annual change in CPI for a given year is the change from the CPI published on the 15th day of December of the preceding year to the CPI published on the 15th day of December of the relevant year, which for the purposes of this annual report, covers the twelve months beginning January 1 through December 31 of the relevant year.

5B. Liquidity and Capital Resources

The discussion below first describes our financial indebtedness (Notes payable, long-term borrowings and total financial debt) and capital expenditures, then our dividend payments, and finally our main sources of liquidity.

5B.1 NOTES PAYABLE

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

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

Members of our Board of Directors and senior management may have purchased a portion of the various Series Notes through stock exchange transactions.

The table below sets forth the composition and terms of the notes payable issued by the Company and outstanding at December 31, 2015:

	Linkage terms (principal and interest)	Annual interest rate	Interest payment terms	Original issuance date
Notes payable series B	CPI	3.4% CPI adj.	Semi-annual	November 2009
Notes payable series C	CPI	3.35% CPI adj.	Semi-annual	April 2010
Notes payable series D		'Makam'(*) plus 1.2%	Quarterly	April 2010
Notes payable series E		5.5% fixed	Semi-annual	April 2010

(*) 'Makam' is a variable interest that is based on the yield of 12 month government bonds issued by the government of Israel. The interest is updated on a quarterly basis. The interest rates paid (in annual terms, and including the additional interest of 1.2%) during 2015 are set forth in the table below:

Period	Interest rate
October 1, 2015 to December 30, 2015	1.27%
July 1, 2015 to September 30, 2015	1.34%
March 31, 2015 to June 30, 2015	1.28%
December 31, 2014 to March 30, 2015	1.46%

The table below sets forth the payments of principal to be made on our notes payable at December 31, 2015 (for payments including interest payments. See "Item 5F Aggregate Contractual Obligations"):

	2016	2017	2018	2019 to 2020	2021 to 2023	Total undiscounted	Less offering expenses and discounts	Total discounted
	New Israeli Shekels in millions							
Notes payable series B (*)	121					121	**	121
Notes payable series C (*)	232	232	232			696	(1)	695
Notes payable series D		109	109	218	110	546	(3)	543
Notes payable series E	187	187				374	(3)	371
	540	528	341	218	110	1,737	(7)	1,730

(*) Linked to the CPI as of December 31, 2015.

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

5B.2 Long-Term Borrowings

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

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

Borrowings as of December 31, 2015 are set forth below:

	Linkage terms (principal and interest)	Annual interest rate	Interest payment terms	Original reception date
Borrowing C		5.7% fixed	Annual	June 2010
Borrowing D		5.7% fixed	Annual	June 2010
Borrowing E		Prime <i>minus</i> 0.025%	Quarterly	May 2011
Borrowing F	CPI	3.42% CPI adj.	Quarterly	April 2011
Borrowing G		3.08% fixed	Quarterly	November 2014
Borrowing H		2.93% fixed	Quarterly	November 2014
Borrowing I		3.17% fixed	Quarterly	January 2015
Borrowing J		2.75% fixed	Quarterly	January 2015
Borrowing K		3.71% fixed	Quarterly	March 2015
Borrowing L		4.25% fixed	Semi-annual	March 2015
Borrowing M		3.884% fixed	Quarterly	July 2015

The table below sets forth the payments of principal to be made on our borrowings, as of December 31, 2015 (for payments including interest payments see Item “5F Aggregate Contractual Obligations”):

	2016	2017	2018	2019 to 2020	2021 to 2023	Total
	New Israeli Shekels in millions					
Borrowing C			25	50		75
Borrowing D			25	50		75
Borrowing E				152		152
Borrowing F (*)				198		198
Borrowing G			20	40	40	100
Borrowing H			20	40	40	100
Borrowing I			30	80	10	120
Borrowing J	15	14	14	29	4	76
Borrowing K			22	53		75
Borrowing L			33	67	100	200
Borrowing M		17	33	67	83	200
	<u>15</u>	<u>31</u>	<u>222</u>	<u>826</u>	<u>277</u>	<u>1,371</u>

(*) Linked to the CPI as of December 31, 2015

Principal prepayments made during 2015:

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

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

New borrowings received during 2015:

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

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

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

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

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

Off balance sheet deferred loan commitments in favor of the Company:

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

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

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

All of the off-balance sheet deferred loan commitments include provisions which allow the lenders to not provide the loans should any of the events of default defined for our existing loans occur prior to the date for providing the deferred loans. These events of default include a material adverse change in the Company's business and non-compliance with the financial covenants set forth below, as well as other customary terms. See "Item 3D.2b Our level of indebtedness could adversely affect our business, profits and liquidity. Furthermore, the continued decline in cash flow (excluding payments from Orange with respect to the Settlement Agreement) and difficulties in generating sustainable cash flow may impair our ability to repay our debt and reduce the level of indebtedness."

Financial covenants. The terms of borrowings require the Company to comply with financial covenants on a consolidated basis. The main provisions are the following two ratios:

- (1) The ratio of (a) the amount of all financial obligations of the Company including bank guarantees that the Company has undertaken ("Total Debt") to (b) EBITDA less Capital Expenditures shall not exceed 6.5 (the ratio as of December 31, 2014 and 2015, was 5.1 and 5.5, respectively); and
- (2) The ratio of (a) Total Debt to (b) the EBITDA of the Company shall not exceed 4 (the ratio as of December 31, 2014 and 2015, was 3.1 and 3.8, respectively).

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

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

The covenants are measured every six months on an annualized basis of twelve months and are based on the financial results for the preceding period of twelve months. At December 31, 2014 and 2015, the Company was in compliance with all covenants stipulated for the years then ended, respectively.

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

Negative pledge. The Company provided a negative pledge undertaking (i.e., not to pledge any of its assets to a third party), except for a number of exceptions that were agreed upon, including pledges (other than by way of floating charge) in favor of a third party over specific assets or rights of the Company securing obligations no greater than NIS 100 million in aggregate.

5B.3 TOTAL NET FINANCIAL DEBT

At December 31, 2015, total net financial debt (the sum total of current notes payable (NIS 554 million) and non-current borrowings and notes payable (NIS 2,547 million) less cash and cash equivalents (NIS 926 million)) amounted to NIS 2,175 million, compared to NIS 2,612 million (the sum total of current borrowings and notes payable (NIS 309 million) and non-current borrowings and notes payable (NIS 2,966 million) less cash and cash equivalents (NIS 663 million)) at December 31, 2014. The decrease in net financial debt compared with 2014 principally reflected the free cash flow (cash flows from operating activities before interest payments, net of cash flows used for investment activities, see reconciliation to cash flows below; free cash flow is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies) generated during 2015. The decrease in financial debt compared with 2014 also reflected prepayment of borrowings and the scheduled repayment of notes payable during 2015 which was partially offset by new borrowings received during 2015. See Note 15 to the consolidated financial statements (see also "Item 5B.2 Long-term Borrowings" above).

Reconciliation of cash flows to Free Cash Flow

	Year ended December 31,	
	2014	2015
	NIS in millions	
Net cash provided by operating activities	951	922
Net cash used in investing activities	(431)	(356)
Free Cash Flow	520	566

At December 31, 2015, the current portion of our total financial debt (including future interest payments during 2016) amounted to NIS 659 million, as compared to NIS 419 million at December 31, 2014, and was composed of the amounts set forth in the table below. We intend to fund the repayment of the current portion of our Notes payable, borrowings and interest in 2016, through available cash or operational cash flow, new borrowings, issuance or sale of corporate notes, or a combination of one or more of these resources.

Current Portion Payable in 2016 as of December 31, 2015

	NIS in millions
Principal on notes payable	540
Principal on borrowings	15
Accrued interest on notes payables	55
Accrued interest on long term borrowings	49
Total	659

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

Our capital expenditures represent additions to property and equipment and computer software. In the years ended December 31, 2013, 2014 and 2015, our capital expenditures amounted to approximately NIS 413 million, NIS 429 million and NIS 269 million, respectively, and were principally related to our cellular network.

At December 31, 2015, our capital expenditure commitments totaled NIS 11 million. For further information regarding our capital expenditure commitments at December 31, 2015, see "Item 5F Aggregate Contractual Obligations".

Dividend payments. For the year ending December 31, 2015, the Company did not distribute any dividends.

5B.4 MAIN SOURCES OF LIQUIDITY

- Cash on hand;
- Operating cash flows, net of cash flow used for investing activities
- Off balance sheet loan commitments.

Cash on hand. At December 31, 2015, we had NIS 926 million in cash on hand, compared to NIS 663 million at December 31, 2014.

Operating cash flows. Cash generated from operations decreased by 3% from NIS 951 million in 2014 to NIS 921 million (US\$ 236 million) in 2015. The free cash flow for 2015 was NIS 566 million compared to NIS 520 million for 2014, representing an increase of 9% (free cash flow is calculated as cash flows from operating activities before interest payments, net of cash flows used for investment activities; free cash flow is not a financial measure under IFRS and may not be comparable to other similarly titled measures for other companies). These increases were mainly explained by a decrease in operating working capital and a decrease in the level of investment in property and equipment (principally in our cellular network). Operating working capital declined by NIS 120 million in 2015 compared with an increase of NIS 46 million in 2014. The decline in working capital reflected the increase in deferred revenues due to payments of ₪90 million received from Orange Brand Services Ltd. ("Orange") during 2015 due to the settlement agreement of the Orange brand license agreement. This decline was partially offset with the continued expansion of trade receivables, which resulted from the sharp upturn during the last two years in equipment sales using long-term payment plans. By deferring the cash in-flow from sales, the long-term payment plans had a negative effect on cash flow, which more than offset the payments still being received from customers who purchased equipment in long term plans during previous periods.

The need to service our existing debt may in the future restrict our ability to continue absorbing the negative effect on cash flow of equipment sales through long-term installment plans. We may therefore be obliged to curtail the use of long-term payment plans for customers purchasing equipment, which would negatively impact one of the key current drivers of equipment sales and total Company profits.

Existing credit facilities. During 2015 and at December 31, 2015, we did not have any active credit facilities.

Off balance sheet loan commitments. In May 2014, the Company engaged in a loan agreement with a group of institutional corporations ("Lenders"), according to which on December 28, 2016, the Lenders will provide the Company a loan in the principal amount of NIS 250 million. The loan will bear unlinked interest at the rate of 4.95% per annum and will be paid (principal and interest) in variable quarterly payments over five years, commencing in March 2017. On November 27, 2014, the Company engaged in a loan agreement with a group of institutional corporations ("Lenders"), according to which on December 26, 2017, the Lenders will provide the Company a loan in the principal amount of NIS 100 million. The loan will bear unlinked interest at the rate of 4.44% per annum and will be paid (principal and interest) in variable quarterly payments over five years, commencing in March 2018. On November 30, 2014, the Company engaged in a loan agreement with a group of institutional corporations ("Lenders"), according to which on December 26, 2017 the Lenders will provide the Company a loan in the principal amount of NIS 100 million. The loan will bear unlinked interest at the rate of 4.34% per annum and will be paid (principal and interest) in variable quarterly payments over five years, commencing in March 2018.

We believe that funds from our operations, together with our cash on hand, will provide us with enough liquidity and resources to fund our expected capital expenditure needs, payment of amounts due on our notes, as well as under our financing agreements, our license payments and our other material commitments, at least for the next 12 months. However, the actual amount and timing of our future requirements may differ materially from our estimates.

As noted in “Item 3D.1i Our mobile telephone license imposes certain obligations on our shareholders and restrictions on who can own our shares. Ensuring compliance with these obligations and restrictions may be outside our control, and may limit our ability to raise new equity capital. If the obligations or restrictions are not respected by our shareholders, we could lose our license.”, if the Company decides to raise capital, it may face significant difficulty to do so since the current holdings of Israeli entities (as defined in the license) holdings are approximately 5% and any equity offering to the public or to the Company’s employees and office holders will require an equivalent equity offering of shares to Israeli entities, in a manner in which the total Israeli entities founding shareholders’ holdings will not be less than 5% of the total issued share capital. Since these Israeli entity shares require pre-approval of the MoC to determine that the receiving shareholder is eligible to be an Israeli entity, they are limited in their capability of transfer to another shareholder. The Company may need to grant a significant discount in an equity offering of these Israeli entity shares. If the Company would be required to raise capital and this issue would prevent it, there could be an adverse impact on our business (e.g. reduction in sales with long term credit arrangements and/or reduction in capital investments). See also “Item 5D.2 Outlook”.

5C. Research and Development, Patents and Licenses

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

5D. Trend Information

5D.1 RECENT DEVELOPMENTS

See “Item 5D.2 Outlook”. See also recent regulatory developments in “Item 4B.13d Regulatory Developments” and “Item 3D.1 RISKS RELATING TO THE REGULATION OF OUR INDUSTRY”.

5D.2 OUTLOOK

In 2015, the intensity in competition in the Israeli telecommunications market remained strong and was reflected in further substantial price erosion in the market following the substantial price erosion already experienced in 2014, resulting in a further significant negative impact on the Company’s business results. As in 2014, in 2015, the Company experienced a material decrease in service revenues due to the continued price erosion, which is expected to continue in the coming quarters of 2016.

Depending on regulatory and other developments in the market, our operating results may continue to decline in 2016 and beyond, which may adversely affect our financial condition. See also “Item 3D.2a As a result of substantial and continuing changes in our regulatory and business environment, our operating results have decreased significantly in the past five years, with a loss recorded for 2015. Our operating results may continue to decline in 2016 and beyond, which may adversely affect our financial condition.”

In order to mitigate the impact of the competition on the price erosion and decrease in service revenues, the Company continued to adjust its cost structure and to implement operational efficiency measures through 2015, which was reflected in a decrease in operating expenses (including cost of service revenues and selling, marketing and administrative expenses, and excluding depreciation, amortization expenses and impairment charges) of NIS 127 million in 2015 compared with 2014. Whilst the Company continues in its efforts to adjust its cost structure and implement further operational efficiency measures, the opportunities available to the Company to reduce operating expenses are diminishing, and therefore operating expenses may not decrease in 2016 as compared with 2015.

Regarding operating cash flows, the continuation of the trend of increasing trade receivables due to the increase in equipment sales through monthly installment plans is expected to continue in the coming quarters of 2016. Should equipment sales continue at the same level, and with the same financing terms as in 2015 throughout the coming year, trade receivables are expected to increase during the coming year. The negative effect on the cash flow is explained by the fact that payments to equipment vendors would be higher than the operating cash flow payments from customers who have purchased equipment through long term financing plans. In light of such plans’ net downward effect on current cash flow, as well as the Company’s need for cash to service substantial existing debt, we may be required to curtail the use of long-term financing plans to promote equipment sales, thereby limiting our ability to continue benefiting from one of the key current drivers of total Company profits. If, as a result, the level of equipment sales and profits decline, and there is a further decline in profits from telecommunications services, total Company profits will not reach the levels of profit before the impact of the impairment that was recorded for 2015.

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

5E. Off-Balance Sheet Arrangements

As of December 31, 2015, the Company provided bank guarantees in a total amount of NIS 204 million. For further details see Note 17 (6) to the consolidated financial statements.

During 2014, the Company engaged in several future loan agreements with a group of institutional corporations according to which the lenders will provide the Company with loans in the amount of NIS 250 million on December 2016, and loans in the amount of NIS 200 million on December 2017. See "5B.2 Long-term Borrowings".

Other than the aforementioned guarantees and deferred loans, there are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. See also "Item 5F Aggregate Contractual Obligations".

5F. Aggregate Contractual Obligations

Set forth below are our contractual obligations and other commercial commitments as of December 31, 2015:

Contractual Obligations	Payments due by period (NIS in millions)				
	Total	2016	2017-2018	2019-2020	2021 and thereafter
Notes Series B*	125	125	-	-	-
Notes Series C*	742	255	487	-	-
Notes Series D*	574	7	231	225	111
Notes Series E*	405	208	197	-	-
Long term borrowings*	1,580	64	346	878	292
Operating Leases	918	223	282	181	232
Trade payables	715	715	-	-	-
Payables in respect of employees	61	61	-	-	-
Other payables	36	36	-	-	-
Contribution to defined benefit plan	11	11	-	-	-
Commitments to pay for inventory purchases	647	647	-	-	-
Commitments to pay for property, equipment purchases and software elements purchases (capital expenditures)	11	11	-	-	-
Commitments to pay for rights of use	303	51	99	102	51
Commitments to pay for transmission services (See Note 17(5) to the consolidated financial statements)	71	71	-	-	-
Total Contractual Cash Obligations	6,199	2,485	1,642	1,386	686

* The table above includes expected payments of interest on our long-term debt (borrowings and notes payable).

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6A. Directors and Senior Management

6A.1 DIRECTORS

Below is a list of the directors of the Company as of the date of this annual report.

Name of Director	Age	Position
Adam Chesnoff*	50	Chairman of the Board of Directors
Elon Shalev*	64	Vice-Chairman of the Board of Directors
Dr. Michael J. Anghel ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	77	Director
Barry Ben Zeev ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	64	Director
Fred Gluckman*	45	Director
Barak Pridor*	50	Director
Osnat Ronen ^{(5) (6)}	53	Director
Yoav Rubinstein*	42	Director
Arieh Saban*	69	Director
Yehuda Saban**	36	Director
Arik Steinberg ⁽¹⁾⁽²⁾⁽⁴⁾	51	Director
Ori Yaron*	50	Director

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) External Director under the Israeli Companies Law (See “Item 6C Board Practices”)
- (4) Independent Director under NASDAQ rules and under the Israeli Companies Law
- (5) Independent Director under NASDAQ rules
- (6) Appointed by the Israeli founding shareholders

* Nominated by S.B. Israel Telecom

** Nominated by the court appointed receiver with respect to most of Scailex's shares in the Company and reappointed by the Annual General Meeting of the Company on October 27, 2015.

Adam Chesnoff was appointed to the Board of Directors of Partner effective as of January 29, 2013 and was appointed to serve as Chairman of the Board of Directors on November 20, 2013. Mr. Chesnoff serves as the President and Chief Operating Officer of Saban Capital Group, Inc., responsible for overseeing its investment and business activities, including private equity and public market investments. Mr. Chesnoff is a member of the Board of Directors of Univision Communications Inc., the largest Spanish-language media company in the United States; a member of the Board of Directors of Celestial Tiger Entertainment Ltd., an owner and operator of pay television channels across Asia. Mr. Chesnoff is also a member of the Board of Commissioners of MNC Ltd., an Indonesian media company. In addition, Mr. Chesnoff served as Vice-Chairman of the Board of Directors of ProSiebenSat.1 Media AG from 2003 until 2007. From 2005 to 2010, Mr. Chesnoff served on the Board of Directors of Bezeq Israel Telecommunication Company Ltd. Mr. Chesnoff holds a B.A. in economics and management from Tel-Aviv University and an M.B.A from UCLA's Anderson School of Business.

Elon Shalev was appointed to the Board of Directors of Partner effective as of January 29, 2013 and was appointed to serve as Vice Chairman of the Board of Directors on November 20, 2013. Mr. Shalev serves as a senior advisor to Saban Capital Group, Inc. Mr. Shalev was the founder of Channel 2 news and from 1993 to 1995 served as its Chief Executive Officer. From 1996-1999, he served as Editor in Chief of "Yediot Aharonot", and from 2000-2001 he served as Executive Vice President of Discount Investment Corporation Ltd. of the IDB Group. Mr. Shalev was the co-founder of SHL Telemedicine Ltd. and still serves as a director in the company. Mr. Shalev served in the past on the Board of Directors of Bezeq Israel Telecommunication Company Ltd., DBS Satellite Services (1998) Ltd. (Yes) and Bezeq International Company Ltd. Mr. Shalev holds a B.A. degree in political science from Tel Aviv University.

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

Barry Ben Zeev (Woolfson) was appointed to the Board of Directors of Partner in October 2009. He has been providing strategic business consulting services since 2009. Mr. Ben Zeev served as the Deputy-Chief Executive Officer & Chief Financial Officer of Bank Hapoalim in 2008. He joined the bank in 1976 and served in a variety of senior positions in the branch system and the international division including New York. Mr. Ben Zeev served in the following executive positions prior to becoming Deputy-Chief Executive Officer & Chief Financial Officer of Bank Hapoalim: Executive Vice President & Head of International Operations during the years 2001-2002, Deputy-Chief Executive Officer & Head of International Private Banking during the years 2002-2006, Chairman of Poalim Asset Management during the years 2001-2006, Chairman of Bank Hapoalim Switzerland during the years 2002-2006, Deputy Chairman of the Board of Directors of Signature Bank in New York during the years 2001-2002 and Deputy-Chief Executive Officer and Head of Client Asset Management during the years 2006-2007. Mr. Ben Zeev serves on the Board of Directors of the following companies: Ellomay Capital Ltd., Poalim Asset Management UK Ltd., Ben Zeev (Woolfson) Consultants Ltd., Hiron-Commerce Investments & Mivnei Ta'asiya Ltd., Kali Pension Administration Management Ltd., Altshuler Shaham Insurance Company Ltd. and Altshuler Shaham Provident and Pension Ltd. He also served as a member of the Board of Directors of the Tel Aviv Stock Exchange during the years 2006-2007. Mr. Ben Zeev holds a B.A. in economics and an M.B.A both from Tel-Aviv University.

Fred Gluckman was appointed to the Board of Directors of Partner effective as of January 29, 2013. Mr. Gluckman serves as the Chief Financial Officer and executive vice president of Saban Capital Group, Inc. ("SCG"). In this position, Mr. Gluckman is responsible for all financial, accounting, tax, HR and IT functions of the firm, and has been an active member of the firm's investment team since joining the firm in 2003. Mr. Gluckman is a member of the Board of Directors of Celestial Tiger Entertainment and serves on its Audit Committee. Mr. Gluckman's experience, prior to joining SCG, includes international and domestic advisory work in the London and Southern California practices of Deloitte. Mr. Gluckman is actively engaged in the community, serving on multiple boards of national and local charitable organizations including on the national executive committee of the Friends of the IDF. Mr. Gluckman is a CPA and holds a B.S. in economics from Wharton Business School and studied at the Hebrew University in Jerusalem.

Barak Pridor was appointed to the Board of Directors of Partner in February 2016. Mr. Pridor served from 2000 until 2011 as CEO of ClearForest, a software startup that was acquired by Thomson Reuters in 2007. Following the acquisition, Mr. Pridor continued to serve as CEO of ClearForest as well as an Executive Vice President at Thomson Reuters until 2011. Mr. Pridor serves as Chairman of the Board of Directors of Applicaster Ltd. from 2015 and as a director on the Board of Directors of Leadspace Ltd. from 2013, and of Sosa Tlv Ltd. from 2013. Mr. Pridor holds a B.Sc. in Mathematics and Computer Science from Tel Aviv University and a M.B.A. from INSEAD Business School.

Ms. Osnat Ronen was appointed to the Board of Directors of Partner in December 2009. Ms. Ronen founded FireWind 01 GP in 2015 and has since served as its general partner. Ms. Ronen has also served as an advisor to Liquidnet, Inc. from 2013 to 2015. She previously served as a General Partner of Viola Private Equity from 2008 until 2013. From 1994 to 2007, Ms. Ronen served in various positions at Bank Leumi Le Israel BM, including as the Deputy Chief Executive Officer of Leumi Partners Ltd. from 2001 to 2007 and as Deputy Head of the Subsidiaries Division of the Leumi Group from 1999 to 2001. Between 2004 and 2007, Ms. Ronen also led the strategic planning, deployment and execution of the Bachar Reform, one of Israel's largest financial reforms, at Leumi Group. As part of the implementation, Ms. Ronen managed the sale of Leumi's holdings in mutual, provident and training funds. Ms. Ronen currently serves on the Board of Directors of Mizrahi-Tefahot Bank Ltd., Fox-Wizel Ltd. and Perion Network Ltd. She also volunteers as a director of the College for Management (Michlala Le-Minhal) and Yissum Research Development Company of the Hebrew University of Jerusalem. Ms. Ronen served on the Board of Directors of several portfolio companies of Viola including: Amiad Water Systems Ltd., Orad Hi-tech Ltd., Aeronautics Ltd., Degania Medical Ltd., and Matomy Media Group Ltd. Ms. Ronen holds a B.Sc. in mathematics and computer science from Tel Aviv University and an M.B.A. from the Recanati School of Business Administration at Tel Aviv University.

Yoav Rubinstein was appointed to the Board of Directors of Partner effective as of January 29, 2013. Mr. Rubinstein joined SHL Telemedicine Ltd. as Senior Vice President, Head of Global Business Development in March 2012. Previously, Mr. Rubinstein served as an investment professional at Apax Partners for nine years and as Senior Advisor to Saban Capital Group, Inc. Mr. Rubinstein holds a B.A. in business administration from the Interdisciplinary Center in Herzliya.

Arieh Saban was appointed to the Board of Directors of Partner effective as of January 29, 2013. Mr. Saban has served since 2010 as Chairman of the Board of Directors of Saban Brands Israel Ltd. From 1983 until 2002 Mr. Saban served as the CEO of Israel Audio-Visual Corporation, a media distribution, licensing and merchandising agency that he founded. From 2000 until 2002 he served as Chairman of the Board of Directors of Fox Kids Israel, a joint venture with Fox Kids Europe. From 2005 until 2012, Mr. Saban served on the Board of Directors of the following companies: Keshet Broadcasting Ltd., Pelephone Communications Ltd., DBS Satellite Services (1998) Ltd. (Yes) Bezeq Israel Telecommunication Company Ltd. and Bezeq International Company Ltd.

Yehuda Saban was appointed to the Board of Directors of Partner effective as of April 29, 2015. Mr. Saban served between 2011- mid 2015 as Vice President Economics & Regulation and FLNG (Floating Liquefied Natural Gas) manager at Delek Drilling & Avner oil exploration. Previously, Mr. Saban served over 6 years in various capacities with the budget department of the Ministry of Finance as Manager of the Telecommunications and Tourism Unit, Manager of the Budget and Macroeconomics unit and as an economist in the Energy unit. During those years, Mr. Saban was also an active partner in a number of committees and authorities in the energy, telecommunications and infrastructure fields. Mr. Saban holds a B.A. in Economics & Business Management (graduated with honors) and an M.B.A specializing in Financing, both from the Hebrew University in Jerusalem.

Arlik (Arie) Steinberg was appointed to the Board of Directors of Partner in January 2012. Mr. Steinberg served from 2006-2010 as Chairman of the Board of Directors of Psagot Investment House, Ltd., as well as other companies in the Psagot Group, leading and overseeing the business strategies of the Psagot Group. Mr. Steinberg served as Chairman on behalf of York Capital. In addition, he served on the Board of Directors of the Tel-Aviv Stock Exchange. Mr. Steinberg also served between 1999-2003 as Chief Executive Officer of Ilanot Batucha Investment House from the IDB Group, as well as a director of Maalot (the Israeli affiliate of Standard and Poor's). Prior to that, Mr. Steinberg served as Managing Director of Etgar- Portfolio Management Trust Co. owned by Bank Mizrahi. He also served on the Advisory Boards of Mobileye Technologies and Novotrans Group SA. Mr. Steinberg serves on the Board of Directors of Leumi Partners Ltd. Mr. Steinberg studied economics at Tel-Aviv University.

Ori Yaron was appointed to the Board of Directors of Partner in May 2014. Mr. Yaron practices law and manages Ilan Yaron Law Offices that specializes in the areas of insurance and torts. Mr. Yaron is a member of the Board of Directors of the Geophysics Institute and served from 2006 until 2007 as a member of the Board of Directors of Mekorot Development & Enterprise and from 2011 until 2014 as a member of the Board of Directors of Hozei Israel Ltd. Mr. Yaron holds a B.A. in economics and an LL.B. both from Tel-Aviv University and is a member of the Israeli Bar Association.

6A.2 SENIOR MANAGEMENT

Below is a list of the Senior Management of the Company as of the date of this annual report:

Name of Officer	Age	Position
Isaac Benbenisti	51	Chief Executive Officer
Yuval Keinan	41	Deputy Chief Executive Officer
Ziv Leitman	57	Chief Financial Officer
Nomi Sandhaus	58	Vice President, Chief Legal Counsel and Corporate Secretary
Einat Rom	50	Vice President, Human Resources & Administration
Ronit Rubin	51	Vice President, Business Customers Division
Zvika Shenfeld	43	Vice President, Private Customers Division
Atara Litvak Shacham	44	Vice President Marketing and Growth Engines Division
Liran Dan	37	Vice President Strategy and Business Development

Isaac Benbenisti was appointed as Chief Executive Officer effective July 1, 2015 after having served as the Deputy CEO of Partner from November 2014. Prior to joining the Company, Mr. Benbenisti served from 2007 until 2014, as the CEO of Bezeq International Ltd. From 2003 through 2006, Mr. Benbenisti served as a director and manager of the Personal Computer and Distribution Channels Division at Hewlett-Packard (HP). Prior to that, he held a variety of managerial positions, including as the CEO of CMS Compucenter Ltd. Mr. Benbenisti holds a B.A. in economics and an M.B.A. specializing in finance and marketing, both from the Hebrew University of Jerusalem.

Yuval Keinan was appointed as Deputy CEO effective January 1, 2016, after having served from 2008 until 2015 as the Vice President and CTO of Bezeq, the Israel Telecommunications Corp., Ltd. Prior to that, he served for three years as Vice President technology division, engineering & IT and CTO of Bezeq International Ltd. Mr. Keinan holds a B.Sc. in computer science from Mercy College.

Ziv Leitman was appointed as Chief Financial Officer of Partner in August 2011. Prior to joining the Company, Mr. Leitman served from 2009 as the Deputy CEO and CFO of Paz Oil Company Ltd., the largest energy and convenience retailer company in Israel traded on the Tel Aviv stock exchange. Mr. Leitman served from 2002 until 2009 as Executive Vice President and CFO of Converse Inc., global leading provider of systems to telecommunication companies. Previously he served as Executive Vice President and CFO of Discount Investments Corporation Ltd. and, Lucent Technology –EIS, Prior to this, Mr. Leitman served as CFO of Hogla-Kimberly Ltd. and Optrotech Ltd. Mr. Leitman is a CPA and holds a B.A. in economics and accounting and an M.B.A. in finance and information systems all from Tel Aviv University.

Nomi Sandhaus was appointed as Vice President, Legal Counsel, Regulatory Affairs and Corporate Secretary effective May 2015. Prior to joining the Company, Ms. Sandhaus served for five years as the chief legal advisor and Head of the Legal Division of Bank Leumi le-Israel B.M. Ms. Nomi Sandhaus had previously served for thirteen years in other senior positions in the bank's legal division. Ms. Sandhaus holds an LL.B. from Tel Aviv University.

Einat Rom, was appointed as Vice President of Human Resources effective November 1, 2012 after having served as Vice President of Private Customers Division since December 1, 2010. Prior to joining Partner, Mrs. Rom served as Vice President of Service in Better Place Company and prior to that, she served as Vice President of Private Division in Bezeq The Israel Telecommunication Corp. and as Vice President of Service in Pelephone Communications Ltd. Mrs. Rom holds a B.A. in social science from Haifa University.

Ronit Rubin, was appointed as Vice President Business Customer Division in February 2015, after having served for five years since joining the Company in March 2010 as Vice President CIO of the IT Division. Prior to joining the Company, Ms. Rubin served from 2006 as the VP IT Division and Business Technologies of VISA CAL. From 1983-2006, she served in the Israeli Defense Forces and held various positions in the programming field, including commander of the computer unit of the Navy from 2004-2006. Ms. Rubin holds a B.A. in economics and logistics from Bar Ilan University and an M.B.A. from Ben-Gurion University.

Zvika Shenfeld was appointed as Vice President, Retail Division effective October 1, 2013 after having served prior to that as the Vice President of Marketing and Content Division, the Acting Head of Marketing, Content and Growth Engines Division and as the deputy of the head of the division since joining the Company in March 2012. From 2009 to 2012 he served as the marketing, strategy and business development at Newpan, an electronic home and small appliances distributor and retail chain. From 2006 until 2009, Mr. Shenfeld held various positions at the Eurocom Group including VP marketing and Business development at Internet Gold and Deputy CEO of MSN Israel. From 2003 until 2006 he served as Marketing Manager of AIG Israel. From 1999 until 2003 he held various economic and marketing positions at 013 Barak ILD. Mr. Shenfeld holds a B.A. in economics and logistics from Bar Ilan University and an M.B.A. from the ONO academic center.

Atara Litvak Shacham was appointed as Vice President of Marketing in December 2014 and joined Partner on February 10, 2015. Before joining Partner, Ms. Litvak Shacham served during 2014 as the Chief Marketing Officer at Colmobil Group, Carter Venture and prior to that as the Vice President of Marketing at Bezeq International Inc. from 2005-2013. Prior to that, Ms. Litvak Shacham served in various management positions. Ms. Litvak Shacham holds a B.A. with honors in behavioral sciences and HR management and industrial management from Ben-Gurion University, an M.B.A. specializing in marketing from the Hebrew University and attended the Management Acceleration Program (MAP) at INSEAD.

Liran Dan was appointed as Vice President Strategy and Business Development in October 2015, after having served from 2012 until 2015 as the Director of the Public Diplomacy and Media at the Prime Minister's office. Prior to that, he held a series of executive positions at Channel 2 News. In his last position, as the V.P. Digital Media, he established the digital desk of Channel 2 News. Mr. Dan holds an Executive MBA degree from Tel-Aviv University, and a BA in political science and history from Bar-Ilan University.

Appointments and Resignations

None of the above directors, except for Mr. Arieh Saban, who is the brother of Mr. Haim Saban, the owner and CEO of Saban Capital Group, has any family relationship with any other director or senior manager of the Company. None of the above members of senior management has any family relationship with any other director or senior manager of the Company.

On May 19, 2015, the Board of Directors announced the anticipated departure of Mr. Haim Romano and the appointment of Mr. Isaac Benbenisti as Chief Executive Officer effective July 1, 2015.

6B. Compensation

The terms of employment of the CEO are approved by the compensation committee, the Board of Directors and the general meeting of shareholders (by a special majority) and must comply with the Company's Compensation Policy for Office Holders (as this term is defined in Item 6C.10 below) (except for certain exceptions, as set by the Israeli Companies Law). The "special majority" requires the approval of a majority of the Company's shareholders participating at the general meeting and voting on the matter and at least one of the following conditions: (i) such majority includes a majority of the votes cast by shareholders who are not controlling parties (as defined in the Israeli Companies Law) in the Company and who do not have a personal interest in the resolution, and who are present and voting (abstentions are disregarded), or (ii) the votes cast against the resolution by shareholders who are not controlling parties and who do not have a personal interest in the resolution, who are present and voting, constitute two percent or less of the outstanding voting power in the Company). The terms of employment of other senior management (Office Holders) are approved by the compensation committee and the Board of Directors, and must comply with the Company's Compensation Policy (except for certain exceptions, as set by the Israeli Companies Law). See "Item 6C.6b Compensation Committee". Senior management is generally appointed by the CEO with the approval of the Board of Directors for an indefinite term of office and may be removed by the CEO with the approval of the Board of Directors at any time.

Pursuant to the provisions of Amendment 20 to the Israeli Companies Law, we have adopted a compensation policy that sets forth the guidelines and framework for the mode of compensation of the Company's Office Holders (the "Compensation Policy"). The Compensation Policy was approved by the Company's shareholders at an extraordinary general meeting of shareholders held on October 17, 2013. The Compensation Policy sets forth the principles and procedures for determining Office Holders' compensation, including ongoing remuneration, bonuses (including annual bonuses, multi-year bonuses, severance bonuses and special bonuses), equity compensation, indemnification, insurance and release. See Exhibit 15.(b).1.

According to the Compensation Policy, annual bonus payments for our senior management are determined with respect to a given year based on targets set for the Company as a whole, targets set for each of the Company divisions as well as on personal evaluations. The targets for the CEO and the senior management are set by the compensation committee and the Board of Directors generally in accordance with the overall Company objectives. Upon the approval of the Company's annual results, bonus payments are determined based on the extent to which the Company and division targets have been met, as well as on the personal evaluation of each Office Holder at the discretion of the compensation committee and the Board of Directors, in light of the recommendations made by the Chairman of the Board of Directors with respect to the CEO, and, in light of recommendations made by the CEO, with respect to senior management reporting to the CEO.

Compensation for senior management may also be provided in the form of equity based compensation which includes stock options to purchase our ordinary shares and restricted shares. In 2015 options were granted to our senior management under the 2004 Equity Incentive Plan to purchase up to 2,888,754 of our ordinary shares at a weighted average exercise price of NIS 17.46 per option (after dividend adjustment and amendments to the exercise price) with some of the options vesting at the earliest in March 2016. These options will expire by March 2025. In addition, in 2015, 592,906 restricted shares were granted to our senior management under the 2004 Equity Incentive Plan, with some of the restricted shares vesting at the earliest in November 2016. For more information, see "Item 6E.2 Equity Incentive Plan".

The aggregate compensation paid, and benefits in kind granted to or accrued on behalf of all our directors and senior management for their services in all capacities to the Company and its subsidiaries during the year ended December 31, 2015, was approximately NIS 27 million (US\$ 7 million). This amount included approximately NIS 4 million (US\$ 1 million) set aside or accrued to provide pension and retirement benefits on behalf of all our senior management during the year ended December 31, 2015.

*CEO Compensation**

Mr. Isaac Benbenisti has served as the CEO of the Company since July 1, 2015. The terms of his employment were approved by the Compensation Committee, the Board of Directors and the general meeting of shareholders of the Company. Until December 1, 2015, the CEO was employed through an agreement with a private company, fully owned by him, for the provision of management services to the Company. Following a resolution of the compensation committee to make an immaterial change to the CEO's terms of employment, the CEO's employment format was changed to that of a company employee ("Employment Agreement"). The engagement in the Employment Agreement is for an unlimited time period with the right of each party to terminate upon 6 months prior written notice. In addition to the advance notice period, upon termination, the CEO will be entitled to a period during which he will receive a salary without being required to provide services. If the employment is terminated during the first year of employment the period will be 3 months and if the employment is terminated as of the second year onwards, the period will be 6 months.

The CEO's monthly salary (gross) will be an amount of NIS 150 thousand, linked to the CPI as of the index June 2015 (at the end of 2015 the monthly salary (gross) was NIS 150.3 thousand). In addition, the CEO will be entitled to reimbursement for the cost of vehicle use and maintenance as well as accepted related terms that are usually granted to the other office holders in the Company including telephone, food, cellular phone and other benefits in accordance with the Company's compensation policy and procedures (including indemnification and insurance arrangements as customary in the Company) and social benefits including sick days, vacation and allocations to plans and funds.

The annual bonus of the CEO is based on two elements: (a) 90% - Company targets (see below) while using the main performance indices determined by the Compensation Committee and Board of Directors after approval of the Company's annual budget, and (b) 10% - CEO performance evaluation for that year by the Compensation Committee and Board of Directors, based on qualitative and quantitative criteria.

The minimum criterion for receiving the annual financial bonus with respect to the CEO, as of the beginning of his said tenure as CEO, is that the Company achieved at least 80% of the Company's targets for the relevant year and in addition, that the total EBITDA shall not have decreased by more than 40% of the EBITDA for the year preceding the year in respect of which the bonus is payable in accordance with section 5.5.1 of the Company's compensation policy.

With respect to the amount of the annual financial bonus, tiers were set to calculate the amount of the bonus according to the CEO's global achievement rate with respect to all of the elements of the annual bonus (a weighted score of the company targets and an evaluation of the CEO's performances), as follows: achievement at a rate lower than 80% will not entitle the CEO to an annual bonus; achievement at a rate between 80%-120% will entitle the CEO to 80%-120% of the annual bonus budget; achievement at a rate that exceed 120% will entitle the CEO to 120% of the annual bonus budget. For the year ending December 31, 2015, the annual bonus budget (100%) for the period during Mr. Benbenisti's tenure as CEO was approximately NIS 750 thousand and for the period during his tenure as Deputy CEO was approximately NIS 300 thousand. These sums are linked to the CPI.

The CEO's Company targets for the year 2015 were determined by the Board of Directors of the Company in March 2015 (with respect to both the former CEO and Mr. Benbenisti) based on the annual work plan of the Company for the year. They include seven individual targets: (1) Company EBITDA target with a weight of 30% of the Company's targets (the 2015 achievement rate: 83%); (2) Cash flow target from the ongoing business with a weight of 20% of the Company's targets (2015 achievement rate: 103%); (3) Net subscriber target (combined cellular, fixed, activation and subscriber churn index) with a weight of 10% of the Company's targets (2015 achievement rate: 81%); (4) Cellular ARPU Base target with a weight of 10% of the Company's targets (2015 achievement rate: 100%); (5) ISP ARPU Base (including private value added services) target with a weight of 10% of the Company's targets (2015 achievement rate: 101%); (6) Network quality target (percentage of dropped calls, leadership in user experience and network availability) with a weight of 10% of the Company's targets (2015 achievement rate: 116%) and (7) Major projects target (meet launch target, costs, content and business targets that were determined) with a weight of 10% of the Company's targets (2015 achievement rate: 101%).

With respect to each of the above Company targets, a threshold and upper limit for achieving the target were determined as follows: achievement at a rate lower than 20% of the target will not allow eligibility for a bonus for that criteria; achievement at a rate between 20% - 200% of the target will allow eligibility at a rate of 20% - 200% for that criteria; achievement at a rate above 200% will allow eligibility of 200% for that criteria.

The global achievement rate of the CEO of all of the elements of the annual bonus for 2015 (that consists of achievement of the elements of the annual bonus during his tenure as Deputy CEO as well as his tenure as CEO) was 97.7%.

On March 13, 2016, the Board of Directors examined the CEO's achievement of targets and in accordance with the achievement of the said targets, the bonus that will be granted to the CEO for 2015, is in the amount of NIS 999 thousand.

In addition, Mr. Benbenisti's eligibility for an annual financial bonus in the year 2015 is partially based on his meeting the targets of the Company during his tenure as Deputy CEO (January 1 to June 30, 2015) as determined and resolved by the Company's organs for this tenure.

*This information is being provided following the Company's supplementary report to its proxy statement for its 2015 annual general meeting dated October 20, 2015.

CEO Equity Incentive Grant

In accordance with the resolutions of the Compensation Committee, Board of Directors and annual meeting of shareholders, Mr. Benbenisti was granted in 2015, in accordance with the Company's equity incentive plan, 1,471,971 options (non-tradeable) of the Company, at an exercise price of NIS 18.08, that constitutes a premium of 5% on the average share price of the Company, during the 30 days preceding the grant date. Mr. Benbenisti's granted options will vest in three tranches: 33% of the entire amount of the options as of October 28, 2016, 33% of the entire amount of options as of October 28, 2017 and the balance of the options as of October 28, 2018. Mr. Benbenisti's eligibility to exercise each of the above detailed tranches will be available to him until October 27, 2021. The fair value of the options as of the grant date according to Black-Scholes model was NIS 8 million.

Highest Office Holder Compensation

The table below sets forth information regarding compensation on an individual basis for the five Office Holders with the highest compensation for the year 2015.

Details of the Compensation Recipient		Compensation for services (the compensation amounts are displayed in terms of cost for the Company) (NIS thousands)			Other compensation & vehicle (the compensation amounts are displayed in terms of cost for the Company) (NIS thousands)	Total (NIS thousands)
Name	Position	Payroll & Related expenses	Annual Bonus	Share based payments ⁽¹²⁾	Other	
Isaac Benbenisti	Chief Executive Officer	2,136	999	1,044 ⁽¹⁾	1,411 ⁽²⁾	5,590 ⁽³⁾
Haim Romano	Former Chief Executive Officer	1,890	2,915 ⁽⁴⁾	300 ⁽⁵⁾	128 ⁽⁶⁾	5,233
Ziv Leitman	Chief Financial Officer	1,316	184	528 ⁽⁷⁾	310 ⁽⁸⁾	2,338
Zvika Shenfeld	Vice President, Private Customers Division	1,048	140	528 ⁽⁹⁾	468 ⁽¹⁰⁾	2,184
Einat Rom	Vice President, Human Resources & Administration	1,136	157	528 ⁽¹¹⁾	201 ⁽⁸⁾	2,022

(1) In 2014, 137,200 share options were granted to Mr. Isaac Benbenisti in his capacity as Deputy CEO at the time, with a vesting period over four years. The theoretical fair value of the share options (according to Black-Scholes model) as measured on the day of the grant was approximately NIS 0.8 million. Mr. Isaac Benbenisti waived these options and they were cancelled when the terms of service and employment of Mr. Benbenisti as the Company's CEO were approved.

In 2015, 1,471,971 share options were granted to Mr. Isaac Benbenisti, in his capacity as the Company's CEO with a vesting period over three years. The theoretical fair value of the share options (according to Black-Scholes model) as measured on the day of the grant was approximately NIS 8 million. As of March 10, 2016, the share price was NIS 16.51 whereas the option exercise price of the options (dividend adjusted) is NIS 18.08. In the event the option exercise price is higher than the market share price, the grant of the options has no actual value for Mr. Isaac Benbenisti.

(2) "Other compensation" includes: expenses for retirement that were accumulated during the reporting period of this Annual Report and will be paid only upon retirement and vehicle expenses.

(3) For further information regarding the CEO's compensation see above under *CEO Compensation*.

(4) Mr. Haim Romano served as the Company's CEO until June 30, 2015. Mr. Romano was granted an annual bonus for the entire year of 2015, including for the advanced notice period which ended December 31, 2015, in accordance with the terms of his employment agreement.

(5) In 2013, 150,000 share options were granted to Mr. Haim Romano with a vesting period over three years. The theoretical fair value of the share options (according to Black-Scholes model) as measured on the day of the grant was approximately NIS 1 million. As of March 10, 2016, the share price was NIS 16.51 whereas the option exercise price (dividend adjusted) is NIS 23.61. As long as the option exercise price is higher than the market share price, the grant has no actual value for Mr. Haim Romano.

In March 2015, an additional 150,000 share options were granted to Mr. Haim Romano with a vesting period over three years (from which 100,000 share options are to be cancelled prior to their vesting date due to termination of employment of the Mr. Romano and therefore their related expenses were cancelled). The theoretical fair value of the share options (according to Black-Scholes model) as measured on the day of the grant was approximately NIS 0.6 million. As of March 10, 2016, the share price was NIS 16.51 whereas the option exercise price (dividend adjusted) is NIS 14.72. As long as the option exercise price is higher than the market share price, the grant has no actual value for Mr. Haim Romano.

(6) Represents Vehicle expenses only.

(7) In 2014, 68,600 share options and 29,130 restricted shares were granted to Mr. Ziv Leitman with a vesting period of up to four years. The theoretical fair value of the share options (according to Black-Scholes model) as measured on the day of the grant was approximately NIS 0.4 million and the fair value of the restricted shares was approximately NIS 0.7 million. As of March 10, 2016, the share price was NIS 16.51 whereas the option exercise price (dividend adjusted) is NIS 25.95. As long as the option exercise price is higher than the market share price, the grant of the options has no actual value for Mr. Ziv Leitman; however a restricted share has the value of the share price.

In 2015, an additional 161,369 share options and 76,378 restricted shares were granted to Mr. Ziv Leitman with a vesting period of up to three years. The theoretical fair value of the share options (according to Black-Scholes model) as measured on the day of the grant was approximately NIS 0.9 million and the fair value of the restricted shares was approximately NIS 1.4 million. As of March 10, 2016, the share price was NIS 16.51 whereas the option exercise price (dividend adjusted) is NIS 17.35. As long as the option exercise price is higher than the market share price, the grant of the options has no actual value for Mr. Ziv Leitman; however a restricted share has the value of the share price.

- (8) Represents vehicle expenses and special grants according to article 5.5.3 to the Company's Compensation Policy.
- (9) In 2014, 68,600 share options and 29,130 restricted shares were granted to Mr. Zvika Shenfeld with a vesting period of up to four years. The theoretical fair value of the share options (according to Black-Scholes model) as measured on the day of the grant was approximately NIS 0.4 million and the fair value of the restricted shares was approximately NIS 0.7 million. As of March 10, 2016, the share price was NIS 16.51 whereas the option exercise price (dividend adjusted) is NIS 25.95. As long as the option exercise price is higher than the market share price, the grant of the options has no actual value for Mr. Zvika Shenfeld; however a restricted share has the value of the share price.
- In 2015, an additional 161,369 share options and 76,378 restricted shares were granted to Mr. Zvika Shenfeld with a vesting period of up to three years. The theoretical fair value of the share options (according to Black-Scholes model) as measured on the day of the grant was approximately NIS 0.9 million and the fair value of the restricted shares was approximately NIS 1.4 million. As of March 10, 2016, the share price was NIS 16.51 whereas the option exercise price (dividend adjusted) is NIS 17.35. As long as the option exercise price is higher than the market share price, the grant of the options has no actual value for Mr. Zvika Shenfeld; however a restricted share has the value of the share price.
- (10) "Other compensation" includes: expenses for retirement that were accumulated during the reporting period of this Annual Report and will be paid only upon retirement; vehicle expenses; a special grant according to article 5.5.3 to the Company's Compensation Policy; and retention expenses in the amount of NIS 300,000, out of which NIS 150,000 were accumulated during 2014 and were paid in April 2014 and an additional amount of NIS 150,000 were accumulated during the reporting period and were paid in April 2015.
- (11) In 2014, 68,600 share options and 29,130 restricted shares were granted to Ms. Einat Rom with a vesting period of up to four years. The theoretical fair value of the share options (according to Black-Scholes model) as measured on the day of the grant was approximately NIS 0.4 million and the fair value of the restricted shares was approximately NIS 0.7 million. As of March 10, 2016, the share price was NIS 16.51 whereas the option exercise price (dividend adjusted) is NIS 25.95. As long as the option exercise price is higher than the market share price, the grant of the options has no actual value for Ms. Einat Rom; however a restricted share has value of the share price.
- In 2015, an additional 161,369 share options and 76,378 restricted shares were granted to Ms. Einat Rom with a vesting period of up to three years. The theoretical fair value of the share options (according to Black-Scholes model) as measured of the grant was approximately NIS 0.9 million and the fair value of the restricted shares was approximately NIS 1.4 million. As of March 10, 2016, the share price was NIS 16.51 whereas the option exercise price (dividend adjusted) is NIS 17.35. As long as the option exercise price is higher than the market share price, the grant of the options has no actual value for Ms. Einat Rom; however a restricted share has value of the share price.
- (12) These sums represent the relative portion of the expenses of all option and restricted share allocations recorded during the reported period.

All options and restricted shares noted above were granted pursuant to the terms of the 2004 Equity Incentive Plan, *inter alia*, with respect to the exercise or earning periods and the expiration date of the options. See "Item 6E.2 Equity Incentive Plan".

6C. Board Practices

References in this annual report to “external directors” are to those directors who meet the definition of external directors under the Israeli Companies Law (“*dahatz*”), and references in this annual report to “US independent directors” are to those directors who meet the definition of independence under applicable listing requirements of NASDAQ. References in this annual report to “Israeli independent directors” are to any director who meets the definition of independence under the Israeli Companies Law (“*bilty taluy*”).

6C.1 TERMS OF DIRECTORS

Directors are generally elected by the annual general meeting of shareholders to serve (i) for three years, in the case of external directors under the Israeli Companies Law, or (ii) until the next annual general meeting of the shareholders (unless their office becomes vacant earlier, in accordance with the provisions of our Articles of Association). An extraordinary general meeting of shareholders may elect any person as a director, to fill an office which became vacant, or to serve as an additional member to the then existing Board of Directors, or to serve as an external director, or in any event in which the number of the members of the Board of Directors is less than the minimum set in the Articles of Association, provided that the maximum number of seventeen directors is not exceeded. Any director elected in such manner (excluding an external director) shall serve in office until the coming annual general meeting of shareholders. The Articles of Association also provide that the Board of Directors, with the approval of a simple majority of the directors, may appoint an additional director to fill a vacancy or to serve as an additional member to the then existing Board of Directors, provided that the maximum number of seventeen directors is not exceeded. Any director elected in such manner shall serve in office until the coming annual general meeting of shareholders and may be re-elected.

Israeli directors are appointed by the Israeli founding shareholders, generally upon a written notice signed by at least two of the Israeli founding shareholders who are the record holders of (i) (at least 50% of minimum Israeli holding shares or (ii), who hold in the aggregate the highest number of minimum Israeli holding shares among the Israeli founding shareholders. Any Israeli founding shareholders who have specified connections to a competing mobile radio telephone operator (as defined in the license) of the Company are prohibited from participation in any such appointment.² The notice is addressed to our company secretary indicating the appointment until the appointee's successor is elected by a similar notice. See “Item 10B.3 Rights Attached to Shares”. In 2009, Ms. Osnat Ronen was appointed as a director on behalf of the Israeli founding shareholders. No director has a service contract with the company or its wholly-owned subsidiaries providing for benefits upon termination of employment. Our Office Holders (generally senior managers) serve at the discretion of the Board of Directors or until their successors are appointed. See “Item 4B.13e Our Mobile Telephone License” for a description of additional requirements of the composition of our Board of Directors and the appointment of its members.

6C.2 ALTERNATE DIRECTORS

Our Articles of Association provide that a director may appoint an individual to serve as an alternate director. An alternate director may not serve as such unless such person is qualified to serve as a director. In addition, no person who already serves as a director or an alternate director on the Company's Board of Directors may serve as an alternate director of another director on the Company's Board of Directors. Under the Israeli Companies Law, an alternate director is generally treated as a director. Under our Articles of Association, an alternate director shall have all the authorities of the director appointing him. The alternate director may not vote at any meeting at which the director appointing him is present. Unless the time period or scope of any such appointment is limited by the appointing director, such appointment shall be effective for all purposes and for an indefinite time, but will expire upon the expiration of the appointing director's term.

² Following a recent amendment to our Articles of Association at the Company's 2015 EGM

6C.3 EXTERNAL DIRECTORS UNDER THE ISRAELI COMPANIES LAW

The Israeli Companies Law generally requires that Partner shall have at least two external directors on its Board of Directors who meet the independence criteria set by the Israeli Companies Law. The appointment of an external director (for the initial term of three years) under the Israeli Companies Law must be approved by the general meeting of shareholders provided that either: (a) the majority of votes in favor of the appointment shall include at least a majority of the votes of shareholders not constituting controlling parties (as stated in the Israeli Companies Law) in the Company, or those having a personal interest (as defined in the Israeli Companies Law) (other than a personal interest not resulting from their relations with the controlling parties) in the approval of the appointment participating in the vote, which votes shall not include abstaining votes; or (b) the total number of objecting votes of the shareholders mentioned in clause (a) does not exceed 2% of the total voting rights in the company.

Dr. Michael Anghel and Mr. Barry Ben-Zeev serve as our external directors under the Israeli Companies Law.

In general, external directors may be re-appointed for two additional three-year terms by one of the following mechanisms:

(i) the Board of Directors proposed the nominee and his appointment is approved by the shareholders in the manner required to appoint external directors for their initial term (described above);

(ii) one or more shareholders that hold at least 1% or more of the company's voting rights proposed the external director for re-appointment, and the nominee is approved by a majority of the votes cast at the shareholders meeting, provided that: (A) the total number of shareholders' votes at the shareholders meeting shall not include the votes of shareholders who are controlling parties and those having a personal interest in the appointment approval (other than a personal interest not resulting from their relations with the controlling parties) and abstaining votes; (B) the aggregate votes cast by shareholders who are not excluded under clause (A) above in favor of the appointment exceed 2% of the voting rights in the company; and (B) the external director (a) is not a related or competing shareholder, or the relative of such a shareholder, at the time of the appointment and (b) is not affiliated with a related or competing shareholder at the time of the appointment or the two years preceding the appointment (the term "related or competing shareholder" is defined as a shareholder who nominated the external director for reappointment or a material shareholder (a shareholder that holds more than 5% of the shares or voting rights in the company), if at the date of such appointment, any of either such shareholder, the controlling shareholder of such shareholder, or a company controlled by either of them, has business with the company or is a competitor of the company); and

(iii) the external director proposed himself or herself and is approved by the process under clause (ii) above.

Under regulations promulgated under the Israeli Companies Law, certain companies, including dual listed companies, like Partner, may re-appoint external directors for additional three-year terms (beyond the three terms of three years each), provided that all of the following conditions are fulfilled: (1) the Audit Committee and, subsequently, the Board of Directors, approves that, considering the external director's expertise and special contribution to the work of the Board of Directors and its committees, his re-appointment for an additional term of office is in the best interest of the Company; (2) the re-appointment for the additional term of office is done in conformity with one of the mechanisms described above; (3) prior to approving the re-appointment, the general meeting of shareholders is informed of the duration of the external director's service as an external director and is presented with the rationale of the Audit Committee and the Board of Directors for extending the external director's term of office.

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

6C.4 FINANCIAL EXPERTS UNDER THE ISRAELI COMPANIES LAW

In accordance with the Israeli Companies Law, Partner's Board of Directors has determined that the minimum number of directors with "accounting and financial expertise" that Partner believes is appropriate, in light of the particulars of Partner and its activities, is three. Under the Israeli Companies Law, only one of such "experts" is required to be an external director. The Board of Directors has determined that eight of our current directors have "accounting and financial expertise": Mr. Adam Chesnoff, Mr. Fred Gluckman, Mr. Yoav Rubinstein, Dr. Michael Anghel, Mr. Barry Ben-Zeev (Wolfson), Ms. Osnat Ronen, Mr. Arie Steinberg and Mr. Yehuda Saban.

6C.5 NASDAQ CORPORATE GOVERNANCE RULES AND OUR PRACTICES

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

- In order to comply with the conditions and restrictions imposed on us by the Ministry of Communications, including in our mobile license, in relation to ownership or control over us, under certain events specified in our Articles of Association, the Board of Directors may determine that certain ordinary shares are dormant shares. Consequently, we received an exemption from NASDAQ with respect to its requirement (now under NASDAQ Rule 5640) that voting rights of existing shareholders of publicly traded common stock registered under Section 12 of the US Securities Exchange Act cannot be disparately reduced or restricted through any corporate action or issuance.
- As permitted under Israeli Companies Law, the Company's Board of Directors generally proposes director nominees for shareholder approval. The conditions of NASDAQ Rule 5605(e), that director nominees must either be selected or recommended to the Board by the independent directors or a nomination committee comprised solely of independent directors, are thus not satisfied.
- According to applicable Israeli legal requirements, the establishment or amendment of certain stock option or purchase plans require the approval of the company's Board of Directors and approval of the shareholders' meeting only for the grant of equity compensation to the Chief Executive Officer, directors or controlling partners. We received an exemption from the requirement set out in NASDAQ Rule 5635(c) that listed companies receive shareholder approval when certain stock option or purchase plans are to be established or materially amended, or certain other equity compensation arrangement made or materially amended, based on the fact that the NASDAQ requirement is inconsistent with the applicable Israeli legal requirements described above.
- The Israeli Companies Law, requires that at least two members of the Board of Directors satisfy the conditions of "external directors", which also satisfies the conditions of an Israeli independent director ("*bilty taluy*"). Two of our twelve directors are external directors and satisfies the conditions of both Israeli independent directors and independent directors according to NASDAQ criteria. Two additional directors, (who are not external directors) satisfy the conditions of independent directors according to NASDAQ criteria, one of whom satisfies the conditions of an Israeli independent director. However, the requirement of NASDAQ Rule 5605(b), that a majority of the Board of Directors be comprised of independent directors, is thus not satisfied.

6C.6 BOARD COMMITTEES

The Company's Articles of Association provide that the Board of Directors may delegate its authorities or any part of them to committees of the Board of Directors as it deems appropriate, subject to the provisions of the Israeli Companies Law. Our Board of Directors has established an audit committee, a compensation committee and a security committee.

6C.6a AUDIT COMMITTEE

Pursuant to the rules of the Securities and Exchange Commission (the "SEC") and the listing requirements of the NASDAQ Global Select Market, as a foreign private issuer, we are required to establish an audit committee consisting only of members who are U.S. "independent" directors as defined by SEC rules. In accordance with the Company's Audit Committee Charter, our audit committee is responsible among other things, for overseeing the Company's financial reporting process and the audits of the Company's financial statements, including monitoring the integrity of the Company's financial statements and the independence and performance of the Company's internal and external auditors. Our audit committee is also directly responsible for the appointment, remuneration and oversight of our independent auditor and for establishing procedures for receiving and handling complaints received by the Company regarding accounting, internal controls and audit matters.

The Israeli Companies Law requires public companies, including Partner, to appoint an audit committee comprised of at least three Board of Directors members, including all the company's external directors, the majority of whom must be Israeli independent directors and the chairman of the audit committee is required to be an external director. Under the Israeli Companies Law neither the controlling party or his relative, the chairman of the Board of Directors, any director employed by the company or by its controlling party or by an entity controlled by the controlling party, any director who regularly provides services to the company, to its controlling party or to an entity controlled by the controlling party, nor any director who derives most of its income from the controlling party, may be eligible to serve as a member of the audit committee.

The responsibilities of our audit committee under the Israeli Companies Law include, *inter alia*, identifying irregularities in the management of the company's business and approving related party transactions as required by law, determining whether certain related party actions and transactions are "material" or "extraordinary" in connection with their approval procedures, assessing the scope of work and remuneration of the company's independent auditor, assessing the company's internal audit system and the performance of its internal auditor and making arrangements regarding the handling of complaints by employees about company's business management deficiencies and regarding the protection given to employees who have made complaints. Following an amendment to the Israeli Companies Law, the audit committee is now authorized to determine, with respect to related party transactions with a controlling shareholder or in which the controlling shareholder has a personal interest, even if they are not extraordinary transactions, an obligation to conduct a competitive process (to be supervised by the audit committee, or any person authorized on its behalf or via any other method approved by the audit committee) or to determine that other processes will be conducted prior to the engagement in such transactions and all in accordance with the type of transaction. The specific criteria for such a process may be determined by the audit committee annually in advance. In addition, the audit committee is now authorized to determine the approval process for transactions that are not negligible, as well as determine which types of said transactions would require the approval of the audit committee. "Non-negligible transactions" are defined as related party transactions with a controlling shareholder or in which the controlling shareholder has a personal interest, that the audit committee has deemed not to be an extraordinary transaction, but which have also been classified by the audit committee as a non-negligible transaction. Additionally, the audit committee may decide on such classifications for these types of transactions, based on criteria set annually in advance.

The Company's audit committee was appointed by our Board of Directors to review our financial statements, in compliance with U.S. legal requirements (as described above) and in compliance with Israeli regulations (from which we are exempt).

Our audit committee is comprised of three Board of Directors members: Dr. Michael Anghel (external director), Mr. Barry Ben Zeev (committee chairman; external director), and Mr. Arik Steinberg (Israeli independent director). All of the audit committee members meet the SEC's definition of independent directors for the purpose of serving as audit committee members as well as the Israeli Companies Law's definition of Israeli independent directors. In accordance with the SEC definition of "independent" director, none of them is an affiliated person of Partner or any subsidiary of Partner.

The Board of Directors has determined that all three audit committee members are "audit committee financial experts" as defined by applicable SEC regulations. See "Item 16A Audit Committee Financial Expert" below.

6C.6b COMPENSATION COMMITTEE

The Israeli Companies Law requires public companies, including Partner, to appoint a compensation committee comprised of at least three Board of Directors members, including all the company's external directors who must constitute the majority of its members. Other members of the committee should be directors whose terms of compensation are the same as external directors and the chairman of the compensation committee is required to be an external director.

Under the Israeli Companies Law, the compensation committee's responsibilities include, *inter alia*, recommending to the Board of Directors, a compensation policy for office-holders to be approved by the shareholders of the Company, see "6B Compensation". The compensation committee also makes recommendations to the Board of Directors once every three years regarding the continuing effectiveness of the compensation policy, reviews modifications to the compensation policy from time to time and its implementation and approves the actual compensation terms of Office Holders which require the compensation committee's approval according to the relevant provisions of the Israeli Companies Law.

Our compensation committee is comprised of three Board of Directors members: Dr. Michael Anghel (external director), Mr. Barry Ben Zeev (committee chairman; external director) and Mr. Arik Steinberg (Israeli independent director). All of the compensation committee members meet the SEC's definition of independent directors for the purpose of serving as the compensation committee members as well as the Israeli Companies Law's definition of Israeli independent directors. In accordance with the SEC definition of "independent" director, none of them is an affiliated person of Partner or any subsidiary of Partner.

6C.6c SECURITY COMMITTEE

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

6C.7 INTERNAL AUDITOR

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

6C.8 FIDUCIARY DUTIES OF AN OFFICE HOLDER

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

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

6C.9 APPROVAL OF RELATED PARTY TRANSACTIONS AND COMPENSATION

The Israeli Companies Law requires that a transaction between the company and its Office Holder, and also a transaction between the company and another person in which an Office Holder has a personal interest, requires the approval of the Board of Directors if such a transaction is not an "extraordinary transaction", although, as permitted by law and subject to any relevant stock exchange rule, our Articles of Association allow our audit committee to approve such a transaction, without the need for approval from the Board of Directors. If such a transaction is an extraordinary transaction (that is, a transaction not in the ordinary course of business, not on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities), generally in addition to audit committee approval, the transaction also must be approved by our Board of Directors, and, in certain circumstances, also by the general meeting of shareholders. Under the Israeli Companies Law, an extraordinary transaction between a public company and a controlling party of the company or an extraordinary transaction between a public company and another person, in which the controlling party has a personal interest (including a private placement), and a transaction between a public company and a controlling party or his relative, directly or indirectly, including, without limitation, via an entity controlled by the controlling party, for receiving services by the company (and if the controlling party is also an Office Holder in the company for his terms of service, and if he is an employee of the company (but not an Office Holder in it) his employment in the company) must be approved by the audit committee or the compensation committee if relates to terms of employment (as the case may be), the Board of Directors and the general meeting of shareholders, provided that either: (a) the majority of votes in favor of the transaction shall include at least a majority of the votes of shareholders who do not have a personal interest in approval of the transaction, who participate in the voting, or (b) the total number of objecting votes of the shareholders mentioned in clause (a) does not exceed 2% of the total voting rights in the company.

The Israeli Companies Law requires that an Office Holder or a controlling party promptly disclose any personal interest that he has and all related material information known to him, in connection with any existing or proposed transaction by the company. The company may then approve the transaction in accordance with the provisions of its Articles of Association and the Israeli Companies Law. Under the Israeli Companies Law, if the Office Holder or a controlling party has a personal interest in the transaction, an approval that the transaction is in the best interest of the company is required.

In most circumstances, the Israeli Companies Law restricts Office Holders who have a personal interest in a matter which is considered at a meeting of the Board of Directors or the audit committee from being present at such meeting, participating in the discussions or voting on any such matter. An exemption exists in the event that a majority of the directors in the meeting have a personal interest in the matter provided, that in case a majority of the Board of Directors has a personal interest in the matter, the transaction will require the approval of the general meeting of shareholders.

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

The terms of employment of Office Holders including compensation, equity awards, severance and other benefits, exemption from liability and indemnification require the approval of the compensation committee and the Board of Directors. The terms of employment of directors and the Chief Executive Officer must also be approved at the general meeting of shareholders by a majority of the Company’s shareholders, provided that (i) such majority includes at least a majority of the shareholders who are not controlling shareholders and who do not have a personal interest in the matter, who participate in the voting (abstentions are disregarded), or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the company. Notwithstanding the foregoing, a company may be exempted from receiving shareholder approval with respect to the terms of employment of a candidate for a Chief Executive Officer position, if such candidate meets certain independence criteria, the terms are in line with the Compensation Policy and the compensation committee has determined for specified reasons that shareholder approval would prevent the engagement. See “6C.6b Compensation Committee”.

Changes to existing terms of employment of Office Holders (other than directors) can be made with the approval of the compensation committee only (following adoption of the Compensation Policy), if the committee determines that the change is not substantially different from the existing terms.

Under the Israeli Companies Law and related regulations, the compensation payable to external directors and Israeli independent directors is subject to certain further limitations.

6C.10 DUTIES OF A SHAREHOLDER

Under the Israeli Companies Law, a shareholder has a general duty to act in good faith and in a customary manner towards the company and the other shareholders and to refrain from improperly exploiting his power in the company, particularly when voting in the general meeting of shareholders on (a) any amendment to the articles of association, (b) an increase of the company’s authorized share capital, (c) a merger, or (d) approval of related party transactions which require shareholder approval. A shareholder should also avoid deprivation of other shareholders. In addition, any controlling party, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder that, pursuant to the provisions of the articles of association, has the power to appoint or prevent an appointment of an Office Holder in the company or any other power towards the company, is under a duty to act in fairness towards the company under the Israeli Companies Law.

6C.11 INDEMNIFICATION

As permitted by the Israeli Companies Law, our Articles of Association provide that Partner may indemnify an Office Holder of Partner to the fullest extent permitted by law.

Without derogating from the foregoing, and subject to limitations set forth in the Israeli Securities Law (see “Item 4B.13d - vii Securities Administrative Enforcement and Antitrust Enforcement”), our Articles of Association specifically provide that Partner may indemnify an Office Holder of Partner for liability or expense he incurs or that is imposed upon him as a result of an action or inaction by him (or together with other Office Holders of Partner) in his capacity as an Office Holder of Partner including (subject to specified conditions) also in advance, as follows:

- 1) financial liability incurred by, or imposed upon the Office Holder in favor of another person in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator, approved by an authorized court.

- 2) reasonable legal expenses, including attorney fees, incurred by the Office Holder or which he was ordered to pay by an authorized court in the context of a proceeding filed against him by Partner or on Partner's behalf or by a third party, in a criminal proceeding in which he was acquitted or in a criminal proceeding in which he was convicted of an offense which does not require criminal intent.
- 3) reasonable legal expenses, including attorney fees, incurred by the Office Holder due to an investigation or proceeding conducted against him by an authority authorized to conduct such investigation or proceeding and which ended without filing of an indictment against him and without the imposition of a financial liability as a substitute for a criminal proceeding or that was ended without filing of an indictment against him but for which he was subject to a financial liability as a substitute for a criminal proceeding relating to an offense which does not require criminal intent, within the meaning of the relevant terms under the law or in connection with a financial sanction ("itzum kaspi").
- 4) payment to an injured party as a result of a violation set forth in Section 52.54(a)(1)(a) of the Israeli Securities Law, including by indemnification in advance or expenses incurred in connection with a proceeding ("halich") under Chapters H3, H4 or I1 of the Israeli Securities Law, or under Chapter 4 of Part 9 of the Israeli Companies Law, in connection with any affairs, including reasonable legal expenses, which term includes attorney fees, including by indemnification in advance."

Our Articles of Association also permit us to indemnify any Office Holders of Partner for any other liability or expense in respect of which it is permitted or will be permitted under applicable law to indemnify an Office Holder of Partner.

The Israeli Companies Law and our Articles of Association also permit us to undertake in advance to indemnify an Office Holder with respect for items (2), (3) and (4) above, or any other matter permitted by law. The Israeli Companies Law and our Articles of Association also permit us to undertake in advance to indemnify an Office Holder with respect to item (1) above, provided however, that the undertaking to indemnify is restricted to events which in the opinion of the Board of Directors are anticipated in light of Partner's activities at the time of granting the undertaking to indemnify, and is limited to a sum or measurement determined by the Board of Directors to be reasonable under the circumstances. The undertaking to indemnify shall specify the events that, in the opinion of the Board of Directors are expected in light of the Company's actual activity at the time of grant of the undertaking and the sum or measurement which the Board of Directors determined to be reasonable under the circumstances.

The Israeli Companies Law combined with our Articles of Association also permits us to indemnify an Office Holder retroactively for all kinds of events, subject to any applicable law.

In no event may we indemnify an Office Holder for any of the following:

- (1) a breach of the duty of loyalty toward us, unless the Office Holder acted in good faith and had reasonable grounds to assume that the action would not harm Partner's interest;
- (2) a breach of the duty of care done intentionally or recklessly ("pzizut") other than if made only by negligence;
- (3) an act intended to unlawfully yield a personal profit;
- (4) a fine, a civil fine ("knas ezrahi"), a financial sanction ("itzum kaspi") or a penalty ("kofer") imposed on him; and
- (5) a Proceeding ("halich").

We have undertaken to indemnify our Office Holders, subject to certain conditions as aforesaid. We consider from time to time the indemnification of our Office Holders, which indemnification will be subject to approval of our compensation committee, Board of Directors and in certain cases, such as indemnification of directors and the CEO, also of our shareholders.

Under the indemnification letters granted to Office Holders prior to the extraordinary general meeting of shareholders held on October 17, 2013 ("October 2013 EGM"), the aggregate indemnification amount payable by us to Office Holders and other indemnified persons pursuant to all letters of indemnification issued to them by us will not exceed the higher of (i) 25% of shareholders equity and (ii) 25% of market capitalization, each measured at the time of indemnification (the "Combined Maximum Indemnity Amount", and "the Original Indemnification Letter").

Under the indemnification letters granted to Office Holders after the October 2013 EGM, the aggregate indemnification amount payable by us to Office Holders (including, *inter alia*, Office Holders nominated on behalf of Partner in subsidiaries) pursuant to all letters of indemnification issued or that may be issued to them by Partner on or after the October 2013 EGM, for any occurrence of an event set out in such a letter (including an attachment thereto) will not exceed 25% of shareholders equity (according to the latest reviewed or audited financial statements approved by Partner's Board of Directors prior to approval of the indemnification payment) ("the Revised Indemnification Letter"). However, under the circumstances where indemnification for the same event is to be made in parallel under the Revised Indemnification Letter and to one or more indemnified persons under the Original Indemnification Letter, the maximum indemnity amount for the indemnified persons that received the Revised Indemnification Letter shall be adjusted so it does not exceed the Combined Maximum Indemnity Amount to which any other indemnified person is entitled under the Original Indemnification Letter.

6C.12 RELEASE

The Companies Law and our Articles of Association authorize the Company, subject to obtaining the required approvals (of our compensation committee, Board of Directors and in certain cases, such as release of directors and the CEO, also of our shareholders), to release our Office Holders, in advance, from such persons' liability, entirely or partially, for damage in consequence of the breach of the duty of care toward us. Notwithstanding the foregoing, we may not release such person from such person's liability, resulting from any of the following events: (i) the breach of duty of loyalty towards us; (ii) the breach of duty of care made intentionally or recklessly ("*prizut*"), other than if made only by negligence; (iii) an act intended to unlawfully yield a personal profit; (iv) a fine ("*knass*"), a civil fine ("*knass ezrahi*"), a financial sanction ("*itzum caspi*") or a penalty ("*kofer*") imposed upon such person; and (v) the breach of duty of care in a distribution ("*haluka*").

6C.13 INSURANCE

The Israeli Companies Law and the Company's Articles of Association authorize the Company (subject to certain exceptions) to enter into an insurance contract, and to arrange and pay all premiums in respect of an insurance contract, for the insurance of the liability of our Office Holders for liabilities the Office Holder incurs as a result of a direct or indirect action or inaction undertaken by such person (or together with other Office Holders of the Company) in his capacity as an Office Holder of the Company for any of the following:

- (1) The breach of the duty of care towards the Company or towards any other person;
- (2) The breach of the duty of loyalty towards the Company provided that the Office Holder has acted in good faith and had reasonable grounds to assume that the action would not harm the Company;
- (3) A financial liability imposed on him in favor of another person;
- (4) A payment which the office holder is obligated to pay to an injured party as set forth in section 52.54(a)(1)(a) of the Securities Law and expenses that the Office Holder incurred in connection with a proceeding under Chapters H3, H4 or I1 of the Securities Law, or under Chapter 4 of Part 9 of the Israeli Companies Law, in connection with any affairs, including reasonable legal expenses, which term includes attorney fees.
- (5) Any other matter in respect of which it is permitted or will be permitted under any law to insure the liability of an Office Holder in the Company.

6D. Employees

At December 31, 2015, we had 2,882 employees on a full time equivalent basis, compared with 3,575 employees at December 31, 2014, and 4,045 at December 31, 2013. The number of full-time equivalent employees at year-end 2013, 2014 and 2015, according to their activity, was as follows:

	At December 31,		
	2013**	2014**	2015
Customer service*	2,228	1,835	1,655
Engineering	355	326	173
Sales and sales support*	629	605	434
Information technology	292	307	192
Marketing and Content	67	65	53
Finance	115	109	91
Human resources	137	119	96
Operations & Logistics	165	157	134
Remaining operations	58	52	53
TOTAL	4,045	3,575	2,882

*Many positions in Customer service and Sales and sales support are filled by more than one part-time employee so that the employee headcount for those activities is about 12% greater than the number of full-time equivalents set forth above.

** Due to organizational structure changes during 2015, that included consolidation of certain divisions and the shifting of manpower between divisions, we have revised the 2013 and 2014 numbers to provide comparable information between the years 2013-2015.

On March 13, 2016, we signed a collective employment agreement with the employees' representatives and the Histadrut, the employees' union. The agreement includes an organizational chapter that is for a period of three years (2016-2018) and an economic chapter that is valid until December 31, 2016. The agreement applies to the Company's employees, excluding certain managerial and specific positions. The organizational chapter includes, among others, provisions regarding manning and changing of positions, termination of employment tenure and a dispute resolution mechanism. The economic chapter includes, among others, provisions regarding terms of employment, benefits and welfare. In addition, the economic chapter provides for annual bonuses to employees and a profit sharing mechanism provision under certain conditions. The estimated cost of the 2016 economic chapter is approximately NIS 30 million. Failure to reach an understanding with the employee representatives on the economic chapter by December 31, 2016, may lead to disruptions in our operations or cause work stoppages. See also Item "3D.2g The unionization of our employees might prevent us from carrying out necessary organizational and personnel changes, result in increased costs or disruption to our operations, and reduce management's flexibility to adapt operations to market conditions, and our operating expenses may be increased, all of which could adversely impact our results."

In addition, we are subject to various Israeli labor laws and practices, as well as orders extending certain provisions of collective bargaining agreements between the Histadrut and the Coordinating Bureau of Economic Organizations, the federation of employers' organizations. Such laws, agreements and orders cover a wide range of areas and impose minimum employment standards including, working hours, minimum wages, vacation and severance pay, and special issues, such as equal pay for equal work, equal opportunity in employment, and employment of women, youth, disabled persons and army veterans.

Our employees are entitled to a pension insurance, in the amounts as follows (amounts vary according to choice of a pension fund or a manager's insurance fund): employer provision for pension and compensation: 12% - 15.83% of the employee's salary and employee provision for pension: 5% - 6% of the employee's salary.

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

According to the National Insurance Law, Israeli employers and employees are required to pay predetermined sums to the National Insurance Institute. These contributions entitle the employees to health insurance and benefits in periods of unemployment, work injury, maternity leave, disability, reserve military service, and bankruptcy or winding-up of the employer. We have never experienced a strike or work stoppage. We believe that our relations with our employees are good.

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

Israeli labor law subjects employers to increased liability, including monetary sanctions and criminal liability, in cases of violations of certain labor laws and certain violations by contractors providing maintenance, security and cleaning services.

In January 2015, the Minimum Wage Law was amended to increase the minimum wage paid to employees in Israel in four installments, from April 2015 to January 2017. The increase may adversely affect our results of operations.

In July 2015 we launched, together with the employees' representatives of the labor union, a voluntary retirement plan for employees, in which approximately 350 employees have retired.

6E. Share Ownership

6E.1 SHARE OWNERSHIP OF DIRECTORS AND SENIOR MANAGEMENT

As of January 31, 2016, to the best of the Company's knowledge, none of our directors or senior management held more than 1% of our issued and outstanding ordinary shares, except as may be set forth under Item 7A. Directors and senior management do not have different voting rights than other shareholders of the Company.

As of January 31, 2016, our senior management held, in the aggregate, outstanding options to purchase up to 4,717,154 of our ordinary shares, of which 1,435,000 options were vested and exercisable as of that date, in addition to 823,426 "restricted shares" (as described in "Item 6E.2 Equity Incentive Plan" below). No individual senior manager holds options to purchase 1% or more of our outstanding ordinary shares. No options or restricted shares have been granted to our directors.

The table below sets forth the number of outstanding options held by our senior management of the Company according to exercise price and expiration date as of January 31, 2016:

Weighted average exercise price (NIS)	Number of outstanding options held	Option expiration Year
48.39	716,900	2020
23.10	3,950,254	2021
13.23	50,000	2022
26.84	4,717,154	TOTAL

6E.2 EQUITY INCENTIVE PLAN

The Amended and Restated 2004 Equity Incentive Plan (formerly known as the 2004 Equity Incentive Plan) (the "Plan") is intended to promote the interests of the Company and its shareholders by providing employees, directors, officers and advisors of the Company with appropriate incentives and rewards to encourage them to enter into and continue in the employ of, or service to, the Company and to acquire a proprietary interest in the long-term success of the Company.

The Plan's principal terms include:

Exercise price determination. The compensation committee shall determine the option and restricted share unit ("RSU") (as further explained below) exercise price per ordinary share, subject to applicable law, regulations and guidelines. Unless otherwise provided in the grant instrument, the option exercise price shall be paid in NIS and the RSU exercise price shall be zero.

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

Cashless exercise. Most of the options may be exercised only through a cashless exercise procedure; while holders of other options may choose between cashless exercise and the regular option exercise procedure. In accordance with such cashless exercise, the option holder would receive from the Company, without payment of the exercise price, only the number of shares whose aggregate market value equals the economic gain which the option holder would have realized by selling all the shares purchased at their market price, net of the option exercise. Unless otherwise determined by the committee in the grant instrument, the Company at its sole and absolute discretion may obligate the grantee to pay the nominal value of the ordinary shares issued and in such event the ordinary shares will not be issued (and the options and RSUs will not be exercised) prior to the payment of such nominal value.

Exercise Period. The option holder may exercise all or part of his options at any time after the date of vesting but no later than the expiration of the exercise period, which will not exceed ten years from the date of option grant (considering, if applicable, *inter alia*, the provisions of the Compensation Policy) unless shortened pursuant to the terms of the Plan.

Vesting. The vesting schedule of granted securities will be determined by the compensation committee and Board of Directors at their sole discretion and will be detailed in the grant instrument. The committee may set performance targets as a vesting criterion (independently or in combination with other criteria).

Acceleration of vesting and adjustment. In the event of termination of employment following a change of control, vesting of granted securities and exercisability of outstanding granted securities shall be accelerated. Upon the occurrence of any merger, consolidation, reorganization or similar event or transaction (e.g., subdivision or consolidation), equitable changes or adjustments to the number of shares subject to each outstanding option and RSU will be made in order to prevent dilution or enlargement of the option and RSU holders' rights and appropriate adjustments shall be made in the number and other pertinent elements of any outstanding restricted shares, with respect to which restrictions have not yet lapsed prior to any such change.

Restricted Shares. The Company may grant "restricted shares" to beneficiaries of the Plan. Restricted shares awarded to a grantee are held by the Plan's trustee in custody for the benefit of the grantee generally until the restrictions thereon have lapsed (e.g., earning period and the other applicable conditions and restrictions under the Plan and the grant instrument under which these restricted shares were awarded). In accordance with the Plan, as long as the restricted shares are held by the trustee, the trustee shall not exercise the voting rights of the underlying ordinary shares at the general meetings of shareholders unless requested to do so by the Company. In such event, the trustee shall vote the underlying ordinary shares proportionally to the shareholders vote and if the vote of public shareholders is counted separately, proportionally to the public shareholders vote. Notwithstanding the foregoing, the Company has reserved the right, upon recommendation of legal counsel, to request the grantee to exercise individually his or her voting rights. In addition, any dividend distributed during the period in which the restricted shares are held by the trustee, is accumulated and transferred to the grantee when the shares have been earned (i.e. when the restrictions lapse).

Except as provided in the immediately preceding paragraph and in the Plan and subject to the terms of the grantee's relevant grant instrument, the grantee shall have, with respect to his or her restricted shares, all of the rights of a shareholder of the Company, including the right to vote the ordinary shares (endorsed to the trustee as long as the restricted shares are held by the trustee), and the right to receive any dividend thereon (accumulated together with the underlying restricted shares).

Restricted Share Units. The Company may grant “restricted share units” to beneficiaries of the Plan. Restricted share units are options, bearing an exercise price of no more than the underlying share’s nominal value. Upon the lapse of the vesting period of a RSU, such RSU shall automatically become an issued and outstanding share of the Company, subject to certain applicable conditions and restrictions under the Plan and the grant instrument and unless otherwise determined by the Board of Directors, the grantee shall pay to the Company its nominal value as a precondition to the issuance of such share.

Change in Control and other certain events. Upon a Change in Control (as defined in the Plan) transaction of the Company as well as other certain events including a merger, reorganization and consolidation, granted securities shall, at the sole and absolute discretion of the Board of Directors, either solely or in any combination: be substituted for similar granted securities to purchase shares of a successor entity, be assumed by a successor entity, be substituted for similar “phantom” granted securities of the Company or the successor entity, or each non-vested granted securities shall become fully exercisable. In the event that the ordinary shares will no longer be traded on any stock exchange, at the sole and absolute discretion of the Board of Directors, either solely or in any combination: each granted securities shall be substituted for a similar phantom granted securities, or each non-vested granted securities shall become fully exercisable.

Amendment and termination of the Plan. The Plan may generally be altered or amended in any respect by a resolution of the Board of Directors of the Company, subject to the Plan, applicable law and the rules and regulations of any stock exchange applicable from time to time to the Company, by reason of their applicability to its shareholders or otherwise. The Board of Directors may, at any time and from time to time, terminate the Plan in any respect, subject to any applicable approvals or consents that may be otherwise required by law, regulation or agreement, including by reason of their applicability to the shareholders or otherwise, and provided that no termination of the Plan shall adversely affect the terms of any granted security which has already been granted.

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

The description of the Plan above is only a summary and is qualified by reference to the full text thereof which has been included as an annex to this Annual Report. See Exhibit 15.(a).1 incorporated by reference in this annual report.

On November 10, 2015, the Company’s Board of Directors approved the increase in the number of shares which may be granted under the Plan by three million shares, which represented approximately 1.87% of the Company’s issued share capital as of November 10, 2015, up to a total of 22,917,000 ordinary shares.

On March 13, 2016, the Board of Directors approved certain amendments to the Plan. The main amendments to the Plan include: (a) amendment to the cashless exercise formula; (b) the ability to allocate restricted share units to the Company’s employees and office holders; (c) automatic extension of the exercise period due to black-out periods; (d) adjustments to the grantee’s rights under any granted securities due to the occurrence of certain events, including a rights offering; (e) a provision allowing the Company’s management bodies to decide to pay a grantee the financial benefit embedded in his equity compensation in cash compensation instead of equity compensation, in certain events in which the Company is unable to issue shares resulting from exercise of options or RSUs or to release any restricted share to a grantee; (f) extension of the exercise period as a result of a change of control event; (g) a provision that allows the Company to limit a grantee from making transactions in the granted securities in connection with any underwritten public offering of the Company and (h) certain exercise restrictions in accordance with the Tel Aviv stock exchange rules. These amendments are subject to the approval of the Israeli Tax Authority and the Israeli Securities Authority.

Share options and restricted shares (collectively, “granted securities”) have been granted to employees in accordance with the Plan. The total number of Company shares reserved for issuance upon exercise of all options granted and for earning of all restricted shares granted under the Plan is 22,917,000 shares. Upon exercise each option provides the right to acquire one ordinary share that confers the same rights as the other ordinary shares of the Company. As of December 31, 2015, options to acquire a total of 12,686,317 ordinary shares and 2,900,626 restricted shares are outstanding.

Information in respect of options and restricted shares granted under the Plan is set forth below:

	Through December 31, 2015	
	Number of options	Number of RSAs
Granted	29,104,416	3,374,446
Shares issued upon exercises and vesting	(6,063,846)	(6,015)
Cancelled upon net exercises, expiration and forfeitures	(10,354,253)	(467,805)
Outstanding	12,686,317	2,900,626
Of which:		
Exercisable	4,615,076	-
Vest in 2016	2,678,117	947,599
Vest in 2017	2,673,710	966,815
Vest in 2018	2,673,682	966,792
Vest in 2019	45,732	19,420

In 2015, following the approval of the Company's Board of Directors, 5,519,031 share options and 1,867,966 restricted shares were granted to senior officers, managers and other employees of the Company and its subsidiary, compared to 3,897,270 share options and 1,594,850 restricted shares granted during 2014. The vesting of the options and the earning of the restricted shares granted after June 2014 are subject to vesting or restriction periods and are also subject to performance conditions set by the Company's organs.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7A. Major Shareholders

The following table sets forth certain information as of February 15, 2016, with respect to each person whom we believe to be the beneficial owner of 5% or more of our ordinary shares. Except where otherwise indicated, we believe, based on information publicly filed with the Securities and Exchange Commission or furnished to us by the principal shareholders, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such ordinary shares. None of our major shareholders has any different voting rights than any other shareholder. See "Item 10B.3 Rights Attached to Shares".

Name	Shares beneficially owned	Issued Shares (1)%	Issued and Outstanding Shares (1)%
S.B. Israel Telecom Ltd.(2)	48,050,000	29.93	30.20
Phoenix-Excellence Group (3)	13,858,574	8.63	8.71
Meitav DS Group (4)	8,777,319	5.47	5.52
Psagot Investment House Ltd. (5)	10,919,933	6.80	6.86
Treasury shares (6)	1,447,349	0.90	-
Public (7)	77,496,796	48.27	48.71
Total	160,549,971	100.00	100.00

- (1) As shown above and used throughout this annual report, the term “Issued and Outstanding Shares” does not include any treasury shares held by the Company. Treasury shares, which are included in “Issued Shares”, have no voting, dividend or other rights under the Israeli Companies Law, as long as they are held by the Company (“dormant shares”).
- (2) S.B. Israel Telecom, an affiliate of Saban Capital Group, a private investment firm, based in Los Angeles, California, specializing in the media, entertainment and communications industries held on February 15, 2016, approximately 30.20% of our Issued and Outstanding shares and voting rights. S.B. Israel Telecom also purchased from Scailex 2,983,333 ordinary shares representing another, approximately 1.91% of our Issued and Outstanding shares and voting rights at that time, which shares are to be transferred by Scailex to S.B. Israel Telecom free and clear of any lien on one or more future deferred closing dates, subject to the conditions set forth in the share purchase agreement entered into between Scailex and S.B. Israel Telecom. See “Item 3D.3a 30.20% of our issued and outstanding shares and voting rights are held by S.B. Israel Telecom Ltd., our largest shareholder, as of February 15, 2016.”
- (3) Phoenix Holdings Ltd., an Israeli corporation listed on the Tel Aviv Stock Exchange (“Phoenix”), and Excellence Investments Ltd., an Israeli corporation listed on the Tel Aviv Stock Exchange (“Excellence”), which is controlled by Phoenix, hold shares in the Company directly and through its wholly owned subsidiaries. (Phoenix, Excellence and their subsidiaries collectively, the “Phoenix-Excellence Group”). These holdings are held according to the following segmentation: 1,883,249 ordinary shares are held by Excellence Provident and Pension funds; 361,855 ordinary shares are held by Excellence Trust Funds; 2,980,786 ordinary shares are held by Excellence ETFs; 716,159 ordinary shares are held by Phoenix “Nostro” accounts; 38,000 ordinary shares are held by Phoenix Provident and Pension funds; 135,413 ordinary shares are held by Linked insurance policies of Phoenix; 7,314,691 ordinary shares are held by Partnership for Israeli shares; 428,421 ordinary shares are held by Partnership for investing in the TA 100. 1,935,000 shares of the 13,858,574 shares held by the Phoenix-Excellence Group, representing approximately 1.22% of our Issued and Outstanding shares and total voting rights, are registered in the Company’s Shareholders Register as part of the shares held by Israeli founding shareholders from among our founding shareholders and their approved substitutes.
- (4) Meitav DS Investments Ltd., an Israeli corporation listed on the Tel Aviv Stock Exchange, holds shares in the Company directly and through its wholly owned subsidiaries (Meitav DS and their subsidiaries collectively, the “Meitav DS Group”). These holdings are held according to the following segmentation: 4,698,556 ordinary shares are held by Meitav DS Provident funds; 749,752 ordinary shares are held by Meitav DS Mutual Funds; 3,131,789 ordinary shares are held by Meitav DS ETFs; 197,222 ordinary shares are held by Meitav DS Portfolio Management. 805,000 shares of the 8,777,319 shares held by the Meitav DS Group, representing approximately 0.51% of our Issued and Outstanding shares and total voting rights, are registered in the Company’s Shareholders Register as part of the shares held by Israeli founding shareholders from among our founding shareholders and their approved substitutes.
- (5) Psagot Investment House Ltd., an Israeli corporation listed on the Tel Aviv Stock Exchange, holds shares in the Company directly and through its wholly owned subsidiaries (Psagot Investment House and their subsidiaries collectively, the “Psagot Investment House”). These holdings are held according to the following segmentation: 2,139,897 ordinary shares are held by portfolio accounts managed by Psagot Securities Ltd.; 4,790,322 ordinary shares are held by Psagot Provident and Pension funds; 1,222,868 ordinary shares are held by Psagot Mutual Funds; 2,752,697 ordinary shares are held by Psagot ETFs ; 14,149 ordinary shares are held by Psagot Insurance.

- (6) Treasury shares do not have a right to dividends or to vote. During 2008, the Company purchased 4,467,990 shares a part of a buy-back plan. Under the Company's 2004 Equity Incentive Plan, the Company allocated to a trustee on behalf of the Company's employees 3,014,626 restricted shares which were allocated from the treasury shares. As of February 15, 2016, 6,015 restricted shares were earned and are no longer listed as restricted shares. See "Item 6E.2 EQUITY INCENTIVE PLAN".
- (7) The shares under "Public" include 5,317,712 shares held by Israeli founding shareholders from among our founding shareholders and their approved substitutes. These shares, together with 1,935,000 shares held by the Phoenix-Excellence Group and 805,000 shares held by the Meitav DS Group, represent approximately 5.02% of our issued shares (approximately 5.06% of the Issued and Outstanding Shares). Under the terms of our mobile telephone license, the Israeli founding shareholders from among our founding shareholders and their approved substitutes must hold at least 5% of our issued and outstanding share capital and of each of our means of control. The Israeli founding shareholders must meet the requirements of "Israeli entities" which are defined as individuals who are citizens and residents of Israel and entities formed in Israel and controlled, directly or indirectly, by individuals who are citizens and residents of Israel, provided that indirect control is only through entities formed in Israel, unless otherwise approved by the Minister of Communications.

As of January 31, 2016, to the best of the Company's knowledge, none of our directors and senior management held more than 1% of our outstanding ordinary shares, except as may be otherwise set forth above; their holdings have been included under "Public" in the table above. For information regarding options held by our senior management to purchase ordinary shares, see "6E- Share Ownership".

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

7A.1 PRINCIPAL SHAREHOLDERS

On January 29, 2013, approximately 30.87% of our issued and outstanding shares at that time were purchased by S.B. Israel Telecom Ltd., which is an affiliate of Saban Capital Group. S.B. Israel Telecom purchased shares representing at that time (i) approximately 28.82% of our issued and outstanding shares from Scailex, and (ii) approximately 2.06% of our issued and outstanding shares from Leumi Partners Ltd., a company wholly owned by Bank Leumi le-Israel B.M. S.B. Israel Telecom's total holdings thus amounted to approximately 30.87% of our issued and outstanding shares and voting rights at that time, and Scailex's holdings, when aggregated with those of its parent company at that time, Suny Electronics Ltd., amounted at that time to 17.12% of our issued and outstanding shares and voting rights. S.B. Israel Telecom also purchased from Scailex, on January 29, 2013, 2,983,333 ordinary shares of the Company representing another 1.91% of our issued and outstanding shares and voting rights at that time, which shares are to be transferred by Scailex to S.B. Israel Telecom free and clear of any lien on one or more future deferred closing dates, subject to the conditions set forth in the share purchase agreement entered into between Scailex and S.B. Israel Telecom. As of February 15, 2016 S.B. Israel Telecom held approximately 30.20% of our issued and outstanding shares. See "7A Major Shareholders".

Following resolutions of the Tel-Aviv-Jaffa District Court in July 2014 and January 2015, the Court appointed a receiver with respect to the control of most of Scailex's shares in Partner in light of Scailex's failure to comply with its obligations to its noteholders. In February 2015, the receiver sold 6,215,750 shares on the Tel-Aviv Stock Exchange, and during the period August – September 2015, sold most of the shares, and maintains less than 5% of Partner shares. As our largest shareholder, S.B. Israel Telecom has the ability to significantly influence our business through its ability to appoint directors serving on our Board of Directors and thereby substantially control all actions that require approval by our Board of Directors. See "Item 3D.3a 30.20% of our issued and outstanding shares and voting rights are held by S.B. Israel Telecom Ltd., our largest shareholder, as of February 15, 2016." and "7A Major Shareholders".

S.B. Israel Telecom is not obligated to provide us with financial support or to exercise its rights as a shareholder in our best interests or in the best interests of our minority shareholders and noteholders, and it may engage in activities that conflict with such interests. If the interests of S.B. Israel Telecom conflict with the interests of our other shareholders and noteholders, those shareholders and noteholders could be disadvantaged by the actions that S.B. Israel Telecom may pursue. However, S.B. Israel Telecom is subject to the fairness duty of a controlling shareholder under the Israeli Companies Law, and, in the context of related party transactions, S.B. Israel Telecom is required to vote for the approval of transactions which are in favor of the Company.

7A.2 SHAREHOLDERS' AGREEMENT BETWEEN S.B. ISRAEL TELECOM AND SCAILEX

Pursuant to a Schedule 13D filed by S.B. Israel Telecom and certain of its affiliates on January 29, 2013, with the United States Securities and Exchange Commission:

"On January 29, 2013, S.B. Israel Telecom and Scailex entered into a shareholders' agreement with respect to their holdings of Ordinary Shares, regulating their mutual agreement relative to the Company (the "Shareholders' Agreement"). Subject to applicable law, under the Shareholders' Agreement, S.B. Israel Telecom and Scailex have agreed to hold a preliminary meeting to coordinate a uniform vote in advance of each shareholders' meeting of the Company. This voting arrangement will apply so long as S.B. Israel Telecom and its affiliates hold more Ordinary Shares than Scailex, its affiliates and any third party to whom Scailex sells 5% or more of the outstanding Ordinary Shares, and which shall be joined to the Shareholders' Agreement (each, a "Joining Third Party"). Pursuant to the Shareholders' Agreement, any decisions of the preliminary meeting shall be made by a simple majority of the voting rights in the Company held by S.B. Israel, Scailex, their respective affiliates and any Joining Third Parties. Pursuant to the Shareholders' Agreement, the parties have agreed to vote in favor of the following items:

- a. the appointment of members to the Company's board of directors in accordance with the composition specified in the Shareholders' Agreement which provides, among other things, for the majority of the members of the board of directors to be candidates recommended by S.B. Israel Telecom;
- b. the execution of amendments to the Company's Articles of Association described in the Shareholders' Agreement;
- c. the approval of management agreements between S.B. Israel Telecom and/or its affiliates, on the one hand, and the Company, on the other hand;
- d. the approval of a registration rights agreement among the Company, S.B. Israel Telecom and Scailex, pursuant to which S.B. Israel Telecom and Scailex will be entitled to demand particular rights from the Company with respect to the registration of securities of the Company under applicable U.S. securities laws;
- e. the approval of run-off insurance for certain officers of the Company; and
- f. the approval of a release, indemnity and insurance for certain officers of the Company.

In addition, pursuant to the Shareholders' Agreement, the parties have agreed to vote against the adoption of any resolution or material amendment thereto not discussed at the relevant preliminary meeting.

The Shareholders' Agreement further provides that so long as Scailex and its affiliates cumulatively hold at least 10% of the Company's outstanding shares, subject to applicable law, S.B. Israel Telecom and its affiliates will not be allowed to approve any of the following actions during the Company's general meeting without receipt of Scailex's written consent:

- a. a material change in the Company's line of business, or entry into a material new line of business, provided, however, that engaging in or entering into any line of business in the telecommunications or media fields would not be deemed a change in the current line of business of the Company or entering into any material new businesses;
- b. a merger of the Company with a communications service-provider, or the acquisition thereof by the Company, in a transaction valued in excess of US\$250 million;
- c. the initiation of liquidation or dissolution proceedings, or a stay of proceedings or a creditors' arrangement;

- d. transactions with interested parties, apart from the management agreements, a purchase of Ordinary Shares within the scope of a rights offering of the Company, the pro-rata receipt of dividends or distributions or a new registration rights agreement;
- e. a change in the Company's share capital that has a material and disproportionate adverse impact on the rights attached to the Ordinary Shares held by Scailex, or the issuance of a class of shares (or similar security) senior to the Ordinary Shares;
- f. voluntary delisting of the Ordinary Shares from the Tel-Aviv Stock Exchange Ltd.; and
- g. amendments to the Company's Articles of Association that have a material and disproportionate adverse impact on Scailex's rights (provided that changing the majority vote required for the approval of a certain action would not be deemed to materially adversely affect Scailex's rights in a disproportionate manner).

Pursuant to the Shareholders' Agreement, S.B. Israel Telecom and Scailex have also agreed to vote their respective Ordinary Shares (including at an annual or special meeting of the Company's shareholders) and to take all necessary actions to ensure that the composition of the Company's board of directors will be as follows: (a) the majority of the members of the board of directors will be candidates recommended by S.B. Israel Telecom; (b) the number of members of the board of directors who will be candidates recommended by Scailex will be determined according to the percentage holdings of the Company's share capital by Scailex and its affiliates, as follows: two members, if Scailex and its affiliates hold at least 10%; one member, if Scailex and its affiliates hold at least 5% but less than 10%; *provided* that the composition of the Company's board of directors as stated above in sub-clauses (a) and (b) will not derogate from Scailex's right to be involved in the appointment of an "Israeli director" of the Company by the Company's shareholders that are classified as "Israeli founding shareholders". In addition, subject to applicable law, so long as Scailex is entitled to appoint at least one director, at least one director recommended by Scailex will be appointed as a member of each of the committees of the Company's board of directors. The Shareholders' Agreement also provides that the chairman of the Company's board of directors will be elected by a majority of the board members and will not have a casting vote. The provisions described in this paragraph will be rescinded on the date that Scailex and its affiliates own more Ordinary Shares than S.B. Israel Telecom and its affiliates.

Under the terms of the Shareholders' Agreement, Scailex is prohibited from transferring any Ordinary Shares held by Scailex and its affiliates, other than in accordance with the provisions of the Shareholders' Agreement. Pursuant to the Shareholders' Agreement, S.B. Israel Telecom will have a right of first offer in the event that Scailex or any of its affiliates seeks to transfer to a third party 5% or more of the issued and outstanding Ordinary Shares of the Company, and if S.B. Israel Telecom does not exercise its right of first offer, it will have a right to match with respect to the offered Ordinary Shares in the event an offer from a third party is made, at a price per share which is less than 108% of the price per share previously offered to S.B. Israel Telecom all subject to the terms and conditions set forth in the Shareholders' Agreement. The above right of first offer and right to match will not apply in connection with: (a) a distribution "in blocks" of Ordinary Shares in the public market; (b) a sale of Ordinary Shares in the public market; (c) a transfer of Ordinary Shares to a party controlled by Scailex (and which will join Scailex as a party to the Shareholders' Agreement); (d) a pledge of Ordinary Shares in connection with the assumption of a debt and/or in connection with a guarantee given in favor of an affiliate of Scailex; or (e) any sale to a third party by Scailex or any of its affiliates of less than 5% of the issued and outstanding Ordinary Shares of the Company during a consecutive 12-month period.

The Shareholders' Agreement may be terminated by S.B. Israel Telecom in the event of a change in control or insolvency event in respect of Scailex, and may be terminated by Scailex, based on reasonable considerations, in the event of a change in control or insolvency event in respect of S.B. Israel Telecom. The Shareholders' Agreement will terminate automatically in the event that either Scailex and its affiliates or S.B. Israel Telecom and its affiliates cumulatively hold less than 5% of the Company's share capital. In addition, the Shareholders' Agreement may be terminated by Scailex or S.B. Israel Telecom in the event that Scailex and its affiliates hold more Ordinary Shares than S.B. Israel Telecom and its affiliates.

It was also agreed between S.B. Israel Telecom Ltd. and Scailex, that Scailex retained the entitlement to dividends in respect of the 44,850,000 Ordinary Shares transferred to S.B. Israel Telecom Ltd. at closing (representing at that time approximately 28.82% of our issued and outstanding shares) out of the amount of distributable profits accrued as of December 31, 2012, up to an aggregate amount of approximately NIS 115,000,000."

S.B. Israel Telecom filed an amendment on October 19, 2015, to its Schedule 13D relating to its shareholdings in the Company. In the amendment, it stated:

"On September 24, 2015, the appointed receiver over Scailex shares, sent a letter to Partner notifying of a sale of shares in Partner. Based on that letter and other public information, such sale appeared to bring the holdings of Scailex and its affiliates to below 5% of Partner's share capital.

Thereafter, on September 30, 2015, a letter was sent on behalf of S.B. Israel Telecom to Scailex setting forth S.B. Israel Telecom's belief that the aggregate holdings of Scailex and its affiliates in the share capital of Partner had fallen below 5%. The letter requested that Scailex provide to S.B. Israel Telecom clarifying information regarding the holdings of Scailex and its affiliates in the share capital of Partner no later than October 7, 2015.

After hearing no response to the September 30, 2015 letter from Scailex or its representatives, on October 13, 2015, a second letter was sent on behalf of S.B. Israel Telecom to Scailex notifying Scailex that in light of the fact that Scailex's and its affiliates' holdings of Partner's share capital decreased to less than 5%, the circumstances exist according to which the shareholders agreement between S.B. Israel Telecom and Scailex dated January 29, 2013 (the "Shareholders Agreement") has automatically terminated by its terms.

As of the date of this Amendment, S.B. Israel Telecom has not received any response from Scailex or its representatives to the September 30, 2015 and October 13, 2015 letters. Accordingly, S.B. Israel Telecom considers the Shareholders Agreement as having automatically terminated by its terms."

7A.3 OTHER

On January 31, 2016, 6,842,317 ADSs (equivalent to 6,842,317 ordinary shares) or approximately 4.30% of our total Issued and Outstanding ordinary shares, were held of record by 41 registered holders in the United States. There were 4 registered holder accounts of the 45 with registered addresses outside of the United States. Certain accounts of record with registered addresses other than in the United States may hold our ordinary shares, in whole or in part, beneficially for United States persons. We are aware that many ADSs and ordinary shares are held of record by brokers and other nominees and accordingly the above numbers are not necessarily representative of the actual number of persons who are beneficial holders of ADSs and ordinary shares, or the number of ADSs and ordinary shares beneficially held by such persons.

7B. Related Party Transactions

7B.1 RELATIONSHIP AGREEMENT

Our Israeli founding shareholders are parties to a Relationship Agreement with S.B. Israel Telecom in relation to its direct holdings of our shares and the rights associated with such holdings. See Exhibit 4.(a).1.2 incorporated by reference in this annual report.

License Conditions: Required Minimum Israeli and Founding Shareholder Percentages

The parties to the Relationship Agreement have agreed that they shall at all times comply with the terms of our license requiring that our founding shareholders or their approved substitutes hold in aggregate at least 26% of our means of control, and that our Israeli founding shareholders or their approved substitutes (from among the founding shareholders and their approved substitutes) hold at least 5% of our means of control. See "Item 4B.13e Our Mobile Telephone License."

Compulsory Transfer in the Event of Default

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

Term and Termination

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

Related agreement among Israeli founding shareholders

A shareholders agreement among the Israeli founding shareholders, or their approved substitutes, purports to establish the procedures, rights and obligations with respect to the appointment of the Israeli director. The Company's position, which is based among others upon a legal opinion from outside counsel, is that the arrangement set in this agreement with respect to the procedures, rights and obligations pertaining to the appointment of the Israeli director is not valid and the Company does not give effect to that arrangement and it acts according to the provision of its license and Articles of Association in connection with the appointment of the Israeli director. In November 2014, the agreement was amended and among other things, Israeli founding shareholders were removed from the Shareholders Agreement, leaving only Scailex (whose shares in the Company that constitute the holdings of Israeli founding shareholders are controlled by a court appointed receiver in light of Scailex's failure to comply with its obligations to its noteholders for the benefit of Scailex's noteholders) and Suny Electronics Ltd. (whose shares in the Company are mortgaged to a trustee on behalf of Suny's noteholders and constitute part of the holdings of Israeli founding shareholders) as parties to the Shareholders Agreement.

7B.2 REGISTRATION RIGHTS

On October 17, 2013, following approval of our general meeting of shareholders, we have entered into a registration rights agreement with S.B. Israel Telecom, our principal shareholder, in which we granted S.B. Israel Telecom:

(1) the right to require us to register ordinary shares held by them under the US Securities Act and to freely dispose of their shares in the U.S. public market. We have agreed that, upon request from S.B. Israel Telecom, we will file a registration statement under the US Securities Act to register ordinary shares held by them, subject to a maximum of one request in any 6-month period and to certain other limitations. There is no limit to the number of registrations that can be requested under the registration rights agreement. The minimum amount of shares that must be included in any registration requested under the registration rights agreement is 2.65% of our outstanding shares.

(2) the right to include their ordinary shares in any registration statement covering offerings of ordinary shares by us.

The registration rights agreement will terminate upon the earlier of October 16, 2018, and such time as the holder can sell its ordinary shares into the United States public market pursuant to an exemption from the registration requirements of the Securities Act without regard to holding period, volume or manner-of-sale limitations.

7C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8A. Consolidated Financial Statements and Other Financial Information

Audited financial statements for the three fiscal years ended December 31, 2015, are included under "Item 18. Financial Statements."

8A.1 LEGAL AND ADMINISTRATIVE PROCEEDINGS

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

We have been named as defendants in a number of civil and criminal proceedings related to our network infrastructure and consumer claims regarding, for example, our tariff plans and billing methods, which may result in civil liabilities or criminal penalties against us or our officers and directors. Plaintiffs in some of these proceedings have successfully sought or are seeking certification as class actions. The costs that may result from these lawsuits are only accrued for when it is more likely than not that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, and events arising during the course of legal proceedings may require a reassessment of this risk. The Company's assessment of risk is based both on the advice of counsel and on the Company's estimate of the probable settlement amounts that are expected to be incurred, if such settlements are agreed by both parties. See Note 20 to the consolidated financial statements for further information regarding litigation and proceedings of which we are currently aware. See also "Item 3D.2o We are exposed to, and currently engaged in, a variety of legal proceedings, including requests to approve lawsuits as class actions related primarily to our network infrastructure and consumer claims."

The litigations described below involve claims for which requests for certification as class actions were filed and which specify an amount of damages, and which we consider may have a potentially material effect on the Company. The total amount of pending claims (claims which have not been dismissed by the court or settled) made by plaintiffs in the litigations described below is NIS 14.96 billion.

1. On April 12, 2010, 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 its 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 plaintiffs to be approximately NIS 343 million. The parties are pursuing mediation in order to reach a settlement agreement.
2. On May 23, 2010, a claim and a motion to certify the claim as a class action were filed against the Company and all other cellular operators. The claim alleges that the Company, as well as the other defendants, is breaching its contractual and/or legal obligation to erect cellular sites in the appropriate scope, quantity and coverage in order to provide cellular services in the required and appropriate quality. The plaintiffs claimed that this omission also causes, inter alia, monetary damages caused to consumers as a result of lack of sufficient coverage, including call disconnections, insufficient voice quality etc., as well as a significant increase in the non-ionized radiation that the public is exposed to mainly from the cellular telephone handset.

In addition, it is claimed that the Company and the other defendants are breaching their contractual and/or legal obligation to ensure and/or check and/or repair and/or notify the consumer, that after repair and/or upgrade and/or exchange of cellular handsets, the handsets may emit radiation in levels that exceed the levels of radiation as set forth by the manufacturer in the handset data and even exceeds the maximum permitted levels set forth by law. In addition, it was claimed that the Company and the other defendants do not fulfill their obligation to caution and warn the consumers of the risks involved in holding the handset and the proximity of the handset to the body while carrying it and during a phone call. In addition, it was claimed that if the handsets marketed by the Company and the other defendants emit non-ionizing radiation above the permitted level, at any distance from the body, then the marketing and sale of such handsets is prohibited in Israel. 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 3.600 billion. In November 2013 the parties filed a request to approve a settlement agreement and in February 2014 the parties filed a request to approve a revised settlement agreement. The settlement agreement also includes a claim and a motion to certify the claim as a class action that was filed in a similar matter as set forth in section 4 below. In July 2014, the court approved the settlement agreement and in October 2014 the plaintiffs filed an appeal with the Supreme Court with respect to the court's decision not to appoint an external examiner regarding the radiation measurement method as well as attorney fees.

3. On September 7, 2010, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company unlawfully charges its customers for services of various content providers, which are sent through text messages (SMS). 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 405 million. The claim has not yet been certified as a class action.
4. On June 6, 2011, a claim and a motion to certify the claim as a class action were filed against the Company and the three other cellular operators. The claim alleges that the Company sell or supply accessories that are intended for carrying cellular handsets on the body, in a manner that contradicts the instructions and warnings of the cellular handset manufacturers and the recommendations of the Ministry of Health, all this without disclosing the risks entailed in the use of these accessories when they are sold or marketed. 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 1,010 million. On November 7, 2013, the parties filed a request to approve a settlement agreement and on February 5, 2014, the parties filed a request to approve a revised settlement agreement. The settlement agreement also includes a claim and a motion to certify the claim as a class action that was filed in a similar matter as set forth in section 2 above. In July 2014 the court approved the settlement agreement and in October 2014 the plaintiffs filed an appeal with the Supreme Court with respect to the court's decision not to appoint an external examiner regarding the radiation measurement method as well as attorney fees.
5. On October 5, 2011, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company enables its customers to subscribe to a content back up service for cellular handsets without informing them in cases in which the handset does not support the service or only partially supports such service. 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 117 million. In November 2014 the claim was dismissed and in January 2015 the plaintiff filed an appeal with the Supreme Court.
6. On March 24, 2014, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company did not include in the severance pay calculation for its employees various components that constitute an addition to the salary for the severance pay calculation and thereby acted unlawfully. If the claim is recognized as a class action, the total amount claimed from Partner is estimated by the plaintiff to be approximately NIS 100 million. On November 15, 2015, the plaintiff requested to withdraw from the claim except for two components. The court accepted the motion and instructed the plaintiff to file a new claim. The claim is still in its preliminary stage of the motion to be certified as a class action.
7. On April 1, 2014, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company charged its customers for cellular internet services abroad not in accordance with the subscriber agreement. If the claim is recognized as a class action, the total amount claimed from Partner is estimated by the plaintiff to be approximately NIS 2 Billion. The claim is still in its preliminary stage of the motion to be certified as a class action.

8. On July 15, 2014, a claim and a motion to certify the claim as a class action were filed against the Company and against additional cellular operators and content providers. The claim alleges that the cellular operators, including the Company, breached legal provisions and provisions of their licenses and thereby created a platform that led to the customers' damages alleged in the claim. If the lawsuit is recognized as a class action the total amount claimed against all of the defendants is estimated by the plaintiff to be approximately NIS 300 million. The claim is still in its preliminary stage of the motion to be certified as a class action.
9. On November 12, 2015, a claim and a motion to certify the claim as a class action was filed against the Company. The claim alleges that Partner required their customers to purchase a router and/or a call adaptor and/or terminal equipment as a condition for using its fixed-line telephony services, not in accordance with the provisions of their licenses. If the claim filed against Partner is recognized as a class action, the total amount claimed against Partner is estimated by the plaintiff to be approximately NIS 116 million. The claim is still in its preliminary stage of the motion to be certified as a class action.
10. On November 12, 2015, a claim and a motion to certify the claim as a class action was filed against 012 Smile. The claim alleges that 012 Smile required their customers to purchase a router and/or a call adaptor and/or terminal equipment as a condition for using its fixed-line telephony services, not in accordance with the provisions of their licenses. If the claim filed against 012 Smile is recognized as a class action, the total amount claimed against 012 Smile is estimated by the plaintiff to be approximately NIS 64 million. The claim is still in its preliminary stage of the motion to be certified as a class action.
11. On November 19, 2015, a claim and a motion to certify the claim as a class action were filed against the Company and other cellular operators. The claim alleges that the Company coordinated prices with other cellular operators of pre-paid plans that it markets, and by doing so prevented competition and breached legal provisions. If the claim is recognized as a class action, the total amount claimed against Partner is estimated by the plaintiff to be approximately NIS 6.6 billion. The claim is still in its preliminary stage of the motion to be certified as a class action.
12. On December 29, 2015, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleged that Partner charges its customers, while they are abroad, for incoming calls that are transferred to voice mail. If the claim is recognized as a class action, the total amount claimed against Partner is estimated by the plaintiff to be approximately NIS 70 million. The claim is still in its preliminary stage of the motion to be certified as a class action.
13. On January 4, 2016, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that Partner charges its customers the full price of telecommunication packages that are intended for use abroad despite the fact that the packages are not fully utilized and does not allow to transfer the balance to the next trip abroad or to receive a credit for the balance. If the claim is recognized as a class action, the total amount claimed against Partner is estimated by the plaintiff to be approximately NIS 234 million. The claim is still in its preliminary stage of the motion to be certified as a class action.

With respect to the following claims which totaled an amount of NIS 4.3 billion, the Company has reached settlement agreements (as noted below, some settlement agreements are still subject to court approval) or the claim has been dismissed and the Company does not believe that they will have a material adverse affect on the Company individually or in the aggregate.

1. 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. The total amount claimed from the Company was estimated by the plaintiffs to be approximately NIS 187 million. The Parties filed a number of settlement agreements which were submitted for the court's approval and the latest revised settlement agreement was filed on June 12, 2014.

2. On February 15, 2012, a claim and a motion to certify the claim as a class action were filed against 012 Smile and other telecommunication operators. The claim alleges that the defendants misled the purchasers of prepaid calling cards designated for international calls with respect to certain bonus minutes. The total amount claimed against 012 (and against each of the other defendants) was estimated by the plaintiff to be NIS 2.7 billion. On May 26, 2013, the court approved a settlement agreement filed by the parties and regarding an additional lawsuit, dealing with similar issues, as set forth in section 3 below. The parties filed a revised settlement agreement in December 2014 that was approved by the court in January 2015. In January 2016, the court declared that in accordance with the documents filed with the court, the execution of the settlement agreement had been completed.
3. During 2008, several claims and motions to certify the claims as class actions were filed against several international telephony companies including 012 Smile. The plaintiffs allege that with respect to prepaid calling card services, the defendants misled the consumers regarding certain issues, charged consumers in excess, and formed a cartel that arranged and raised the prices of calling cards. On November 3, 2010, the court granted the plaintiffs' request and certified the lawsuit as a class action against all of the defendants. The total amount of damages claimed by the plaintiff against 012 Smile was approximately NIS 128 million. On May 26, 2013, the court approved a settlement agreement filed by the parties regarding an amended request and regarding an additional lawsuit, dealing with similar issues in an amount of NIS 2.7 billion, as set forth in section 2 above. The parties filed a revised settlement agreement in December 2014 that was approved by the court in January 2015. In January 2016, the court declared that in accordance with the documents filed with the court, the execution of the settlement agreement had been completed.
4. On February 6, 2012, a claim and a motion to certify the claim as a class action were filed against the Company and other cellular operators. The claim alleges that the Company, as well as the other defendants does not comply with the requirements set by the Equal Rights for People with Disabilities (Accessibility to Telecommunications Services and Telecommunications Devices) Regulations of 2009. The total amount claimed from the Company was estimated by the plaintiffs to be approximately NIS 120 million. In December 2015, the parties filed a settlement agreement for the court's approval.
5. On June 19, 2012, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company unlawfully charged its subscribers for certain calls in which a call-filtering system has been activated by the subscriber being called. The total amount claimed from Partner was estimated by the plaintiff to be approximately NIS 72 million. In February 16, 2016, the court dismissed the claim.
6. On July 1, 2012, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company charged subscribers that are enrolled in a certain tariff plan for call minutes not in accordance with the terms of the plan. The total amount claimed was estimated by the plaintiff to be approximately NIS 123 million. On June 7, 2015, the court approved a settlement agreement filed by the parties.
7. On June 23, 2013, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company acted unlawfully by not offering its customers discounted cellular tariff plans which are offered under the 012 mobile brand and by charging its customers that transferred to a plan under the 012 mobile brand a payment for a new SIM card. The total amount claimed from Partner was estimated by the plaintiff to be NIS 232 million. The claim was dismissed by mutual consent in November 2015.
8. On November 13, 2013, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company increased tariffs for its subscribers not in accordance with their agreements. The total amount claimed from Partner was estimated by the plaintiff to be NIS 150 million. The parties filed a settlement agreement in October 2015.

9. On December 2, 2013, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company did not fulfill its commitment regarding the grant of refunds for cellular equipment starting from the first month of the customer agreement and that the Company unlawfully charged its customers for the Orange 2 service, and thereby breached the agreements with its customers and the provisions of its license, and profited unlawfully. The total amount claimed from Partner was estimated by the plaintiff to be NIS 603 million. The claim was dismissed in April 2015.

The litigations described below involve claims for which requests for certification as class actions were filed and which do not claim any specific amount of damages. Based on its best judgment of the merits or lack thereof of the three class actions described below, the likely range of damages which may be involved, and any provisions made in respect thereof in the Company's balance sheet, the Company does not currently believe that the outcome of these class actions, individually or in the aggregate, will have a material negative effect on its financial situation.

1. On July 14, 2010, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that Partner is breaching its contractual and/or legal obligation and/or is acting negligently by charging V.A.T for roaming services that are consumed abroad. If the claim is recognized as a class action, the plaintiff demands to return the total amount of V.A.T that was charged by Partner for roaming services that were consumed abroad. The plaintiff also pursued an injunction that will order Partner to stop charging V.A.T for roaming services that are consumed abroad. In August 2014, the claim was dismissed and in October 2014 the plaintiff filed an appeal with the Supreme Court. The appeal has been set in the Supreme Court for May 2016 in front of an expanded panel of seven judges.
2. On August 8, 2012, a claim and a motion to certify the claim as a class action were filed against 012 Smile and another Internet Service Provider to the Central District Court in Israel. The claim alleges that the defendants breached certain provisions of their licenses by not offering their services at a unified tariff to all customers. The total amount claimed against 012 Smile if the lawsuit is recognized as a class action was not stated by the plaintiff. The Company is unable, to evaluate, with any degree of certainty, the probability of success of the lawsuit or the range of potential exposure, if any. The claim is still in its preliminary stage of the motion to be certified as a class action.
3. On May 6, 2015, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges, that Partner discriminated between its cellular customers, including between new customers and existing customers, by offering the same type of customers, different terms, not in accordance with the provisions of its license. The plaintiff noted that it cannot estimate the total amount claimed in the lawsuit, if the lawsuit is certified as a class action. The Company is unable, to evaluate, with any degree of certainty, the probability of success of the lawsuit or the range of potential exposure, if any. The claim is still in its preliminary stage of the motion to be certified as a class action.
4. On September 7, 2015, a claim and a motion to certify the claim as a class action were filed against the Company and 012 Smile. The claim alleges that Partner and 012 Smile overcharge its subscribers according to a special tariff for overseas call destinations that are defined by the Company as special tariff destinations despite the fact that they are fixed-line destinations. The total amount claimed against Partner and 012 Smile if the lawsuit is recognized as a class action was not stated by the plaintiff. The Company is unable, to evaluate, with any degree of certainty, the probability of success of the lawsuit or the range of potential exposure, if any. The claim is still in its preliminary stage of the motion to be certified as a class action.
5. On March 3, 2016, a claim and a motion to certify the claim as a class action were filed against the Company and another cellular operator. The claim alleges that Partner unlawfully charges its customers that are abroad for rejecting an incoming call. The plaintiffs noted that they cannot estimate the total amount claimed in the lawsuit, if the lawsuit is certified as a class action. The Company is unable, to evaluate, with any degree of certainty, the probability of success of the lawsuit or the range of potential exposure, if any. The claim is in its preliminary stage of the motion to be certified as a class action.
6. On February 24, 2016, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company harasses recipients by sending advertising messages without receiving their prior approval for this. In addition, the content of the advertisements does not comply with the legal provisions, among others, with respect to the fact that most of the advertising messages do not easily include an option to remove or send a refusal notice. The total amount claimed against the Company if the lawsuit is recognized as a class action was not stated by the plaintiff. The Company is unable, to evaluate, with any degree of certainty, the probability of success of the lawsuit or the range of potential exposure, if any. The claim is still in its preliminary stage of the motion to be certified as a class action.

During 2015, no new criminal proceedings were brought against us concerning the erection of network sites without building permits. As of December 31, 2015, two criminal proceedings were pending against us concerning the erection of network sites without building permits, none of which was pending against our officers and directors. We are currently negotiating with the relevant local authorities to reach a settlement regarding the relocation of affected sites or obtaining building permits for those sites. Settlements of previous criminal proceedings brought against us resulted in Partner, but not its officers or directors, admitting guilt and paying a fine, and also resulted in the imposition of demolition orders for the relevant sites, the execution of which have been stayed for a period of time to allow us to obtain the necessary permits or to relocate the relevant network site.

8A.2 DIVIDEND DISTRIBUTION POLICY

Our Articles of Association allow for our Board of Directors to approve all future dividend distributions, without the need for shareholder approval, subject to the provisions governing dividends under the Israeli Companies Law.

On March 16, 2010, the Board of Directors approved a dividend policy for 2010 targeting a minimum of 80% payout ratio of annual net income for the year ending December 31, 2010 and on February 22, 2011 the Board of Directors reaffirmed the dividend policy for 2011. For the year 2011, the Company distributed dividends (with respect to the first three quarters of 2011), which in the aggregate represented a payout ratio of approximately 80% of our annual net income for the year. The Board of Directors decided not to distribute additional dividends for the year 2011 in light of the loss recorded for the fourth quarter 2011 and considering that the total amount of dividends already distributed for 2011 was already equivalent to approximately 80% of the annual net profit for the year. On March 21, 2012, the Board of Directors reaffirmed the existing dividend policy with respect to 2012, targeting a minimum of 80% payout ratio of the Company's annual net profit.

The Board of Directors resolved on September 19, 2012, to cancel the existing dividend policy for 2012, and to assess dividend distributions (and their scope) from time to time, by reference to, *inter alia*, the Company's cash flow, profitability, debt level, debt coverage ratios and the business environment in general. For the years ended December 31, 2013 and 2014, no dividend has been declared by the Company. For risks relating to future payments of dividends see "Item 3D.2v Based on a decision of the Board of Directors in 2012, dividend distributions are assessed from time to time on the basis of various factors. There can be no assurance that dividends will be declared or, if they are, at what level. No dividends have been distributed since 2013.

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

8B. Changes

No significant change has occurred since December 31, 2015, except as otherwise disclosed in this annual report. See also "Item 5D.2 Outlook".

ITEM 9. THE OFFER AND LISTING

9A. Offer and Listing Details

Our capital consists of ordinary shares, which are traded on the Tel Aviv Stock Exchange under the symbol “PTNR”. American Depositary Shares (“ADSs”), each representing one of the Company’s ordinary shares, are quoted on the NASDAQ Global Select Market under the symbol “PTNR”. The ADSs are evidenced by American Depositary Receipts (“ADRs”) originally issued by JPMorgan Chase, as depositary under a Deposit Agreement, dated as of November 1, 1999, among the Company, JPMorgan Chase and registered holders from time to time of ADRs. ADSs were first issued in October 1999. From March 2006 until November 27, 2011, the Bank of New York served as our depositary for ADSs. Since November 28, 2011, Citibank serves as our depositary for ADSs.

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

	NASDAQ		Tel Aviv Stock Exchange	
	(\$ per ADS)		(NIS per ordinary share)	
	High	Low	High	Low
2011	20.62	8.63	74.00	32.92
2012	9.23	3.12	35.35	12.37
2013	9.75	5.46	35.00	20.30
2014				
First Quarter	9.41	8.40	32.93	30.81
Second Quarter	9.57	7.81	33.10	26.89
Third Quarter	7.72	6.81	27.67	24.85
Fourth Quarter	7.35	5.05	27.33	20.14
2015				
First Quarter	4.99	2.72	19.54	11.05
Second Quarter	2.82	2.18	11.43	8.50
Third Quarter	5.00	2.52	19.65	10.01
Fourth Quarter	4.95	3.70	19.40	14.58
September 2015	4.65	3.91	18.25	15.55
October 2015	4.95	3.70	19.40	14.58
November 2015	4.79	4.50	19.06	17.50
December 2015	4.71	4.21	18.41	16.72
January 2016	4.84	4.13	19.16	16.58
February 2016	4.64	4.28	18.48	16.82
March 2016 (through March 7)	4.76	4.47	18.56	17.85

9B. Plan of Distribution

Not applicable.

9C. Markets

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

9D. Selling Shareholders

Not applicable.

9E. Dilution

Not applicable.

9F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10A. Share Capital

Not applicable.

10B. Memorandum and Articles of Association

10B.1 PURPOSES AND OBJECTS OF THE COMPANY

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

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

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

Pursuant to section four of our Articles of Association, our objective is to engage in any legal business.

10B.2 THE POWERS OF THE DIRECTORS

The power of our directors to vote on a proposal, arrangement or contract in which the director is personally interested is limited by the relevant provisions of the Israeli Companies Law and our Articles of Association. In addition, the power of our directors to vote compensation to themselves or any members of their body, requires the approval of the compensation committee, the Board of Directors and the general meeting of shareholders. Generally, the Annual Meeting of the Shareholders must be convened to elect directors and a shareholders meeting could terminate the term of office of directors. In addition, our Articles of Association provide that, in certain circumstances relating to our compliance with the license, our Board of Directors may remove any director from the Board of Directors by a resolution passed by 75% or more of the directors present and voting at the relevant meeting. See also "Item 6C Board Practices".

10B.3 RIGHTS ATTACHED TO SHARES

Our registered share capital consists of a single class of 235 million ordinary shares, par value NIS 0.01 per share, of which 160,549,971 ordinary shares were issued and 159,102,633 were issued and outstanding as of January 31, 2016. See "Item 7A.1 PRINCIPAL SHAREHOLDERS". All outstanding ordinary shares are validly issued and registered. The rights attached to our ordinary shares are described below.

Dividend Rights

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

Shares which are treated as dormant under section 44.6 of our Articles of Association (under circumstances relating to compliance with our license) retain the rights to receive dividends or other distributions to shareholders, and to participate in rights offerings, but no other rights. See "Item 4B.13e Our Mobile Telephone License".

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

Voting Rights

Holders of issued and outstanding ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders either in person or by proxy. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. The quorum required for a general meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent, in the aggregate, at least one third of the voting rights of the issued share capital. In the event that a quorum is not present within thirty minutes of the scheduled time, the shareholders' meeting will be adjourned to the same day of the following week, or the next business day thereafter, at the same time and place, or such time and place as the Board of Directors may determine. If at such reconvened meeting a quorum is not present after the lapsing of 30 minutes from the time appointed for holding the meeting, one or more shareholders present in person or by proxy holding or representing in the aggregate at least 10% of the voting rights in the Company will generally constitute a quorum. Any shareholder seeking to vote at a general meeting of our shareholders must first notify us if any of the shareholder's holdings in the Company requires the consent of the Ministry of Communications. The instructions of a shareholder will not be valid unless accompanied by a declaration by the shareholder as to whether or not the shareholder's holdings in the Company or the shareholder's vote requires the consent of the Ministry of Communications due to a breach by the shareholder of the restrictions on transfer or acquisition of means of control, or provisions regarding cross-ownership with other mobile telephone operators or shareholdings or agreements which may reduce or harm competition. If the shareholder does not provide such certification declaration, his instructions will be invalid and his vote not counted.

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

Under our Articles of Association our directors are generally elected by an ordinary majority of the shareholders at each duly convened annual meeting, and serve until the next annual meeting, and our external directors are elected in accordance with applicable law and/or relevant stock exchange rules applicable to us; or until their respective successors are elected and qualified, whichever occurs first, or in the case of Israeli directors who are appointed by the founding Israeli shareholders, generally upon a written notice signed by at least two of the founding Israeli shareholders who are the record holders of (i) at least 50% of minimum Israeli holding shares or (ii), who hold in the aggregate the highest number of minimum Israeli holding shares among the Israeli founding shareholders. Any Israeli founding shareholders who have specified connections to a competing mobile radio telephone operator (as defined in the license) of the Company are prohibited from participation in any such appointment.³ The notice is addressed to the Company's company secretary indicating his appointment, until their respective successors are elected upon such notice. In each annual meeting the directors that were elected at the previous annual meeting are deemed to have resigned from their office, excluding the external directors, who according to the Israeli Companies Law, are elected for a period of three years and the Israeli director whose appointment is terminated generally by a written notice by himself or by the founding Israeli shareholders. A resigning director may be reelected. Each ordinary share represents one vote. No director may be elected or removed on the basis of a vote by dormant shares. The ordinary shares do not have cumulative voting rights in the election of directors.

³ Following a recent amendment to our Articles of Association at the Company's 2015 EGM

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

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

Rights in the Company's Profits

Our shareholders have the rights to share in our profits distributed as a dividend and any other permitted distribution. See “Item 10B.3 Rights Attached to Shares—Dividend Rights.”

Rights in the Event of Liquidation

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

Rights in the Event of Reorganization

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

Limitations on Ownership and Control

Ownership and control of our ordinary shares are limited by the terms of our licenses and our Articles of Association. See “Item 4B.13e Our Mobile Telephone License-License Conditions” and “Revoking, limiting or altering our license.”

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

Our Compensation Policy allows us to allocate in addition to shares, restricted shares. For rights attached to restricted shares see “Item 6E.2 EQUITY INCENTIVE PLAN”.

10B.4 CHANGING RIGHTS ATTACHED TO SHARES

According to our Articles of Association, in order to change the rights attached to any class of shares, the general meeting of the shareholders must adopt a resolution to change such rights by a special majority, representing at least 75% of the votes of shareholders participating and voting in the general meeting, and in case of changing the rights attached to certain class of shares, the approval by special majority of each class meeting, is required.

10B.5 ANNUAL AND EXTRAORDINARY GENERAL MEETINGS

The Board of Directors must convene an annual general meeting of shareholders at least once every calendar year, within fifteen months of the last annual general meeting. In accordance with our Articles of Association, notice of a general meeting must be sent to each registered shareholder no later than five days after the record date set by the Board of Directors for that meeting, unless a different notice time is required under applicable law. An extraordinary meeting may be convened by the Board of Directors, as it decides or upon a demand of any two directors or 25% of the directors, whichever is lower, or of one or more shareholders holding in the aggregate at least 5% of our issued capital and at least 1% of the voting rights of the Company; or (ii) at least 5% of the voting right of the Company, can seek to convene a shareholders meeting or as otherwise permitted by the Israeli Companies Law. See "Item 10B.3 RIGHTS ATTACHED TO SHARES–Voting Rights."

One or more shareholders holding (alone or in the aggregate), 1% or more of the share capital of the Company may request that the Board of Directors include an issue on the agenda of a general meeting of shareholders (including the nomination of a candidate to the board of directors), provided that such issue is suitable to be discussed in the general meeting of shareholders. Pursuant to an amendment to regulations promulgated under the Israeli Companies Law, effective from July 2014, said shareholder request should be submitted to the company within three or seven days (depending on the type of resolution dealt with in the convened meeting) following publication of the Company's notice with respect to its general meeting of shareholders, or, if the Company publishes a preliminary notice stating its intention to convene such meeting and the agenda thereof, within fourteen days of such preliminary notice. Any such proposal must further comply with the information requirements and time frames under Israeli law.

10B.6 LIMITATIONS ON THE RIGHTS TO OWN OUR SECURITIES

For limitations on the rights to own our securities see "Item 4B.13e Our Mobile Telephone License– License Conditions," "– Our Permit Regarding Cross Ownership" and "Item 10B.3 Rights Attached to Shares – Limitations on Ownership and Control."

10B.7 LIMITATIONS ON CHANGE IN CONTROL AND DISCLOSURE DUTIES

For limitations on change in control see "Item 4B.13e Our Mobile Telephone License– License Conditions" and "– Our Permit Regarding Cross Ownership".

10B.8 CHANGES IN OUR SHARE CAPITAL

Changes in our share capital are subject to the approval of the shareholders at a general meeting of shareholders by a special majority of 75% of the votes of shareholders participating and voting in the general meeting of shareholders.

10B.9 OUR LICENSE PREVAILS IN CASE OF AN INCONSISTENCY

If any article of our Articles of Association is found to be inconsistent with the terms of our mobile telephone license granted by the Ministry of Communications (see "Item 4B.13e Our Mobile Telephone License") or of any other telecommunications license we hold, the provisions of such Article shall be deemed null and void.

10C. Material Contracts

Settlement Agreement with Orange Brand Services Ltd. In June 2015, we entered into a settlement agreement with Orange regarding the brand license agreement between the parties, according to which each of the parties had the right to terminate the brand license agreement under certain conditions. The settlement agreement also provided for payments to Partner in the event that Partner chose to terminate the brand license agreement. –see "Item 5A.1c Settlement Agreement with Orange Brand Services Ltd.".

Network sharing agreement. In April 2015, the Ministry of Communications approved the 15- year Network Sharing Agreement that we entered into with HOT Mobile. Pursuant to the Network Sharing Agreement, the parties created a 50-50 joint venture, the purpose of which is to operate and develop a cellular network to be shared by both parties, starting with a pooling of both parties' radio access network infrastructures to create a single shared radio access network. The joint venture began operations in August 2015. See "Item 4B.9 OUR NETWORK".

Right of Use Agreement with HOT Mobile. Partner and HOT Mobile entered into a right of use agreement, which took effect on November 8, 2013, and is valid until April 1, 2016. Under the right of use agreement, Partner provides services to HOT Mobile in the form of a right of use of Partner's radio cellular network. According to the right of use agreement, HOT Mobile pays Partner fixed base payments with additional variable payments based, among other things, on traffic volume exceeding a defined threshold. See "Item 4B.9 OUR NETWORK".

i-Phone Agreement. Following the expiration of a previous agreement, in November 2012, we entered into a non-exclusive agreement with Apple Distribution International for the purchase and resale of iPhone handsets in Israel. Pursuant to the agreement, we agreed to purchase a minimum quantity of iPhone handsets per year, for a period of three years. The agreement has been extended until April 30, 2016, while the parties are negotiating the renewal of the agreement. These purchases will represent a significant portion of our expected handset purchases and sales over that period.

Fixed-line transmission services. In April 2012, we signed a five- year agreement with Bezeq effective as of January 1, 2012, for the supply of transmission services for use in Partner's mobile network. The agreement replaces an earlier transmission agreement between the parties from 2008. The transmission services to be purchased in accordance with this agreement, together with the use of the Company's own transmission network, will allow Partner to meet all its transmission requirements, at an improved cost during the next five years. Partner's minimum annual commitment was NIS 57 million for the year 2013 and will gradually increase to NIS 71 million for the year 2016 due to the increase in the scope of the capacity to be purchased in accordance with the layout agreed upon by the parties. The minimum commitment as of December 31, 2015, is NIS 71 million. Commencing April 2015, Hot Mobile undertakes its share in these expenses through PHI according to the OPEX-CAPEX mechanism, see Note 9 to the consolidated financial statements.

Registration Rights Agreement. We have entered into registration rights agreements with S.B. Israel Telecom, our principal shareholder, in which we granted our principal shareholders the right to require us to register ordinary shares held by them under the US Securities Act. See "Item 7B.2 REGISTRATION RIGHTS".

Network upgrade and deployment of fourth generation network. On October 25, 2010, we entered into an agreement with Ericsson for the upgrade of our existing networks and the deployment of our fourth generation network in Israel for an initial term that ended at the end of 2014. We extended the initial period by an additional period of one year for the provision of support and maintenance services until the end of 2015 and again until the end of 2016. We have an option to extend the agreement by eight additional periods of one year each. See "Item 4B.9g Suppliers" and "Item 5A.1g Agreement for the Upgrade of Our Existing Networks and the Deployment of Fourth Generation Network in Israel".

Med Nautilus Agreement. We have an agreement with Med Nautilus for the provision of international capacity services through submarine infrastructure, which connects countries bordering the Mediterranean Sea to all major Western European countries and from there to the rest of the world until 2023 with an option to extend the agreement until 2027.

10D. Exchange Controls

There are no Israeli government laws, decrees or regulations that restrict or that affect our export or import of capital or the remittance of dividends, interest or other payments to non-resident holders of our securities, including the availability of cash and cash equivalents for use by us and our wholly-owned subsidiaries, Partner Future Communications 2000 Ltd., Partner Land-Line Communications Solutions (of which Partner Future Communications 2000 Ltd. serves as the general partner and the Company serves as the limited partner) and 012 Smile, except or otherwise as set forth under “Item 10E. Additional Information – Taxation.”

Under Israeli law (and our Memorandum and Articles of Association), persons who are neither residents nor nationals of Israel may freely hold, vote and transfer ordinary shares in the same manner as Israeli residents or nationals.

10E. Taxation

Israeli Tax Considerations

The following discussion is not intended, and should not be construed, as legal or professional tax advice and should not be relied on any specific case since it does not exhaust all possible tax considerations.

The following is a summary of the current tax laws of the State of Israel as they relate to us and to our shareholders and also includes a discussion of the material Israeli tax consequences for persons purchasing our ordinary shares or ADSs, both referred to below as the “Shares”. To the extent that the discussion is based on legislation yet to be subject to judicial or administrative interpretation, there can be no assurance that the views expressed herein will accord with any such interpretation in the future. This discussion is not intended and should not be construed as legal or professional tax advice and does not cover all possible tax considerations.

Potential investors are urged to consult their own tax advisors as to the Israeli or other tax consequences of the purchase, ownership and disposition of our ordinary shares, including, in particular, the effect of any foreign, state or local taxes.

Israeli Tax Reforms

On July 24, 2002, the Israeli Parliament enacted income tax reform legislation, commonly referred to as the “2003 Tax Reform”. The 2003 Tax Reform has introduced fundamental and comprehensive changes into Israeli tax laws. Most of the legislative changes took effect on January 1, 2003. The 2003 Tax Reform has introduced a transition from a primarily territorial-based tax system to a personal-based system of taxation with respect to Israeli residents. The 2003 Tax Reform has also resulted in significant amendment of the international taxation provisions, and new provisions concerning the taxation of capital markets including the abolishment of currently “exempt investment routes” (e.g., capital gains generated by Israeli individuals from the sale of securities traded on the Tel-Aviv Stock Exchange). Under the 2003 Tax Reform legislation the Shares are no longer regarded and defined as “foreign traded securities” and thus certain associated Israeli tax aspects will accordingly be subject to change as discussed below.

A relatively short time after the 2003 Tax Reform, the Israeli Parliament approved on July 25, 2005 an additional income tax reform legislation (the “2006 Tax Reform”) pursuant to the recommendations of a committee appointed by the Israeli Minister of Finance, which incorporated additional fundamental changes to Israeli tax law. The 2006 Tax Reform outlines a path towards uniformity in the taxation of interest, dividend and capital gains derived from securities. The “Tax Burden Distribution Law” legislation amendments (2011) that were published in December 2011, which became effective on January 1, 2012, abolished the reduction of income tax rates for corporations and individuals and increased, *inter alia*, the corporate tax rate and the tax rates on individual’s dividend income. On July 27, 2013 following the Tax Burden Distribution Law, the Israeli Parliament approved The Law For the Change in National Priorities (Legislation Amendment to Achieving Budget Goals for years 2013 and 2014), 2013 (the “2013 Amendment”). On January 4, 2016 the Israeli Parliament approved an amendment for the Israeli tax Ordinance (Number 216), 2016 according to which corporate tax rate will be updated for 2016 (the “2016 Amendment”). It shall be noted that the 2016 amendment is considered an event after the reporting period which might influence the company’s deferred taxes as of tax year 2016. Would the law have been approved at December 31, 2015, the deferred tax asset as of December 31, 2015 would have decreased in the amount of approximately NIS 2 million, with corresponding decrease in deferred tax expenses in the income statement.

Various issues related to the above legislations remain unclear in view of the legislative language utilized and the lack of authoritative interpretations at this stage. The analysis below is therefore based on our current understanding of the new legislation.

General Corporate Tax Structure

Israeli companies are generally subject to corporate tax on their taxable income (including capital gains). The regular corporate tax rate in Israel for 2013 was 25% and for 2014 and 2015 was 26.5%. the 2016 Amendment provides that the corporate tax rate will be 25% as of 2016.

Special Provisions Relating to Taxation under Inflationary Conditions

Until 2008, our taxable income was determined under the Income Tax (Inflationary Adjustment) Law 1985 (the “Inflationary Adjustments Law”), which attempts to overcome some of the problems presented to a traditional tax system by inflation.

In February 2008, the Israeli Parliament approved Amendment No. 20 to the Inflationary Adjustments Law (“the Amendment”). The Amendment repealed the Inflationary Adjustments Law as of January 1, 2008 and set certain transitional rules.

Tax on Capital Gains of Shareholders

- **General.** Israeli law generally imposes a capital gains tax on the sale of capital assets by residents of Israel as defined for Israeli tax purposes, and on the sale of capital assets located in Israel or the sale of direct or indirect rights to assets located in Israel, including on the sale of our Shares by some of our shareholders (see discussion below). The Israeli Income Tax Ordinance distinguishes between “Real Capital Gain” and “Inflationary Surplus”. Real Capital Gain is the excess of the total capital gain over Inflationary Surplus computed on the basis of the increase in the CPI between the date of purchase and the date of sale. In 2013 the real capital gain accrued on the sale of our Shares was generally taxed at a rate of 25% for corporations (26.5% as of 2014 and 2015, and 25% as of 2016) and a rate of up to 25% for individuals. Additionally, if such individual shareholder is considered a “Significant Shareholder” at any time during the 12-month period preceding such sale (i.e., if such individual shareholder holds directly or indirectly, along with others, at least 10% of any means of control in the company, including, among other things, the right to receive profits of the company, voting rights, the right to receive the company’s liquidation proceeds and the right to appoint a director), the tax rate will be up to 30%.

However, the foregoing tax rates will not apply to (i) dealers in securities; and (ii) shareholders who have acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement). Inflationary surplus that accrued after December 31, 1993, is exempt from tax.

Generally, a semi-annual detailed return, including a computation of the tax due should be submitted to the Israeli Tax Authorities and a tax advance amounting to the tax liability arising from the capital gain is payable. At the sale of traded securities, the aforementioned detailed return may not be submitted and the tax advance should not be paid, if all tax due was withheld at the source according to applicable provisions of the Israeli Tax Ordinance and regulations promulgated thereunder.

Capital gains are also reportable on annual income tax returns.

- **Taxation of Israeli Residents**

The following is a summary of the most significant Israeli capital gains tax implications arising with respect to the sale of our Shares by shareholders who are not engaged in the business of trading in securities.

Individuals

As of January 1, 2012, a shareholder will generally be subject to tax at up to 25% rate on realized real capital gain (if the shareholder is a Significant Shareholder, as defined above, the tax rate will be up to 30%). To the extent that the shareholder claims a deduction of financing expenses, the gain will be subject to tax at a rate of 30% (until otherwise stipulated in bylaws that may be published in the future).

Please note that an individual Israeli tax resident may be required to pay up to 48% on his yearly taxable income, subject to certain exceptions. In addition, as of January 1, 2013, an individual Israeli tax resident is required to pay an additional tax at the rate of 2% on his yearly taxable combined income from any source exceeding NIS 811 thousands.

Corporations

Shareholders who are corporations will be generally subject to tax at the corporate tax rate on the realized capital gain as described in “General Corporate Tax Structure” in Item 10E above.

Different taxation rules may apply to shareholders who purchased the Shares prior to January 1, 2009 or prior to the listing on the Tel Aviv Stock Exchange or the Nasdaq Global Market. Such Shareholders should consult with their own tax advisors for the tax consequences upon sale.

In general, a partnership will be a transparent entity for tax purposes and the investors will be subject to tax with respect to their share in accordance with the tax rate applies individually.

In general, under the Israel Tax Ordinance, public institutions are exempt from tax.

- **Taxation of Non-Israeli Residents**

As mentioned above, Israeli law generally imposes a capital gains tax on sales of capital assets, including securities and any other direct or indirect rights to capital assets located in Israel. This tax is also applicable to nonresidents of Israel as follows:

Under Israeli law, the capital gain from the sale of shares by non-Israeli residents is tax exempt in Israel as long as our shares are listed on the NASDAQ Global Select Market or any other stock exchange recognized by the Israeli Ministry of Finance (this condition shall not apply to shares purchased on or after January 1, 2009) and provided that certain other conditions are met, the most relevant of which are: (A) the capital gain is not attributed to the foreign resident’s permanent establishment in Israel, (B) the shares were acquired by the foreign resident after the company’s shares had been listed for trading on the foreign exchange, and (C) if the seller is a corporation, less than 25% of its means of control are held by Israeli residents. It should be noted that with respect to shares which are listed on the Israeli stock exchange market, a tax exemption may apply under certain different conditions.

In addition, the sale of shares may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty (for example, please refer to the discussion below with respect to the Convention Between the Government of the United States of America and the Government of the State of Israel with Respect to Taxes on Income).

Different taxation rules may apply to shareholders who purchased their shares prior to the listing on the Tel Aviv Stock Exchange. Such shareholders should consult with their tax advisors for the precise treatment upon sale.

- **Taxation of Investors Engaged in a Business of Trading Securities**

Individual and corporate dealers in securities in Israel are taxed at tax rates applicable to business income.

- **Withholding at Source from Capital Gains from Traded Securities**

The Purchaser, the Israeli stockbrokers and any financial institution through which the sold securities are held, are obliged, subject to certain exemptions, to withhold tax on the amount of consideration paid with respect to such sale (or on the capital gain realized on the sale, if known) at the Israeli corporate tax rate as described in “General Corporate Tax Structure” in Item 10E above.

In case the seller is an individual, the applicable withholding tax rate would be 25%, or 30% in case the seller is a significant shareholder.

Dividends

The following Israeli tax consequences shall apply in the event of actual payment of any dividends on the Shares.

As of January 1, 2012, dividends, other than bonus shares (stock dividends), paid to Israeli resident individuals who purchased our Shares will generally be subject to income tax at a rate of 25% for individuals, or 30% if the dividend recipient is a Significant Shareholder (as defined above) at any time during the 12-month period preceding such distribution. Dividends paid to Israeli resident companies will not be included in their tax liability computation.

Non-residents of Israel (both individuals and corporations) are subject to income tax on income accrued or derived from sources in Israel, including dividends from Israeli corporations. The distribution of dividend income, other than bonus shares (stock dividends), to non-residents of Israel will generally be subject to income tax at a rate of 25% (or 30% for a shareholder that is considered a Significant Shareholder (as defined above) at any time during the 12-month period preceding such distribution), unless a lower rate is stipulated by a double tax treaty between the State of Israel and the shareholder's country of residence.

In the event of actual payment of any dividends on our ordinary shares the following withholding rates will be applied: (i) Israeli resident corporations – 0%, (ii) Israeli resident individuals – 25% (iii) non-Israeli residents – 25%, subject to a reduced tax rate under an applicable double tax treaty; (iv) Israeli resident individual who is a Significant Shareholder – 30%; and (v) non-Israeli resident who is a Significant Shareholder – 30%, subject to a reduced tax rate under an applicable double tax treaty. Nevertheless, if the Shares are held through a Nominee Company, as defined in the Israel Securities Act, the withholding tax rate for shareholders under (iv) and (v) above shall be 25% (subject to a reduced tax rate under an applicable double tax treaty for non-Israeli residents).

A non-resident of Israel that has received a dividend income derived from an Israeli corporation, from which tax was withheld at the source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided that such income was not connected to or derived from a trade or business conducted in Israel by such person.

Repatriation

Non-residents of Israel who acquire any of the Shares of the Company will be able to repatriate dividends, liquidation distributions and the proceeds from the sale of such shares in non-Israeli currencies at the rate of exchange prevailing at the time of repatriation provided that any applicable Israel income tax has been paid, or withheld, on such amounts. US holders should refer to the "United States Federal Income Considerations" section below with respect to the US federal income tax treatment of foreign currency gain or loss.

The foregoing discussion is intended only as a summary and does not purport to be a complete analysis or listing of all potential Israeli tax effects of holding of our shares. We recommend that shareholders consult their tax advisors concerning the Israeli and non-Israeli tax consequences to them of holding our shares.

Taxation of Residents of the United States under the US Treaty

Residents of the United States generally will be subject to withholding tax in Israel on dividends paid, if any, on Shares (including ADSs). Generally, under the Convention Between the Government of the United States of America and the Government of the State of Israel with Respect to Taxes on Income (the "US Treaty"), the maximum rate of withholding tax on dividends paid to a holder of Shares (including ADSs) who is a resident of the United States (as defined in the US Treaty) will be 25%. Under the US Treaty, the withholding tax rate on dividends will be reduced to 12.5% if (i) the shareholder is a U.S. resident corporation which holds during the portion of the taxable year which precedes the date of payment of the dividend, and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting stock of the Israeli resident paying corporation and (ii) not more than 25% of the gross income of the Israeli resident paying corporation for such prior taxable year consists of certain types of interest or dividends.

The US Treaty exempts from taxation in Israel any capital gains realized on the sale, exchange or other disposition of Shares (including ADSs) provided that the following cumulative conditions are met: (a) the seller is a resident of the United States for purposes of the US Treaty; (b) the seller owns, directly or indirectly, less than 10% of our voting stock at all times during the 12-month period preceding such sale, exchange or other disposition; (c) the seller, being an individual, is present in Israel for a period or periods of less than 183 days during the taxable year; and (d) the capital gain from the sale was not generated through a permanent establishment of the seller in Israel.

Subject to the exemptions from capital gains prescribed in the Israeli Income Tax Ordinance (as described above), purchasers of Shares (including ADSs) who are residents of the United States and who hold 10% or more of the outstanding ordinary shares at any time during such 12-month period will be subject to Israeli capital gains tax. However, under the US Treaty, residents of the United States (as defined in the US Treaty) generally would be permitted to claim a credit for this tax against US federal income tax imposed on the sale, exchange or other disposition, subject to the limitations in US laws applicable to the utilization of foreign tax credits generally.

The application of the US Treaty provisions to dividends and capital gains described above is conditioned upon the fact that such income is not effectively connected with a permanent establishment (as defined in the US Treaty) maintained by the non-Israeli resident in Israel.

United States Federal Income Tax Considerations

The following discussion is a summary of certain material US federal income tax considerations applicable to a US holder (as defined below) regarding the acquisition, ownership and disposition of ordinary shares or ADSs. This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the “Code”), existing and proposed US Treasury regulations, administrative pronouncements, rulings and judicial decisions as of the date of this annual report. All of these authorities are subject to change, possibly with retroactive effect, and to change or changes in interpretation. In addition, this summary does not discuss all aspects of US federal income taxation that may be applicable to investors in light of their particular circumstances or to investors who are subject to special treatment under US federal income tax law, including US expatriates, insurance companies, banks, regulated investment companies, securities broker-dealers, financial institutions, tax-exempt organizations, persons holding ordinary shares or ADSs as part of a straddle, hedging or conversion transaction, persons subject to the foreign tax credit splitting events rules, persons subject to the alternative minimum tax, persons who acquired their ordinary shares or ADSs pursuant to the exercise of employee stock options or otherwise as compensation, US holders having a functional currency other than the US dollar, persons owning (directly, indirectly or by attribution) 10% or more of our outstanding share capital or voting stock and persons not holding the ordinary shares or ADSs as capital assets. This discussion also does not address the consequences of the Medicare tax on net investment income or any aspect of state, local or non-US tax law or any other aspect of US federal taxation other than income taxation.

As used herein, the term “US holder” means a beneficial owner of an ordinary share or an ADS who is eligible for benefits as a US resident under the limitation on benefits article of the US Treaty (as defined above in “–Taxation of Residents of the United States under the US Treaty”), and is:

- a citizen or individual resident of the United States for US federal income tax purposes;
- a corporation (or an entity taxable as a corporation for US federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to US federal income taxation regardless of its source; or
- a trust if (A) a US court is able to exercise primary supervision over the trust’s administration and (B) one or more US persons have the authority to control all of the trust’s substantial decisions.

If a partnership, or other entity or arrangement treated as a partnership for US federal income tax purposes, holds ordinary shares or ADSs, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partnership or a partner in a partnership that holds ordinary shares or ADSs is urged to consult its own tax advisor regarding the specific tax consequences of owning and disposing of ordinary shares or ADSs.

For US federal income tax purposes, US holders of ADRs will be treated as owners of the ADSs evidenced by the ADRs and the ordinary shares represented by the ADSs. Furthermore, deposits or withdrawals by a US holder of ordinary shares for ADSs, or of ADSs for ordinary shares, will not be subject to US federal income tax. The statement of US federal income tax law set forth below assumes that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

US holders should review the summary above under “Israeli Tax Considerations” and “Taxation of Residents of the United States under the US Treaty” for a discussion of the Israeli taxes which may be applicable to them.

Holders of ordinary shares or ADSs should consult their own tax advisors concerning the specific Israeli, US federal, state and local tax consequences of the ownership and disposition of the ordinary shares or ADSs in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction. In particular, US holders are urged to consult their own tax advisors concerning whether they will be eligible for benefits under the US Treaty.

Dividends

A US holder generally will be required to include in gross income as ordinary dividend income the amount of any distributions paid on the ordinary shares and ADSs, including the amount of any Israeli taxes withheld in respect of such dividend. Dividends paid by us will not qualify for the dividends-received deduction applicable in certain cases to US corporations.

The amount of any distribution paid in NIS, including the amount of any Israeli withholding tax thereon, will be included in the gross income of a US holder of ordinary shares in an amount equal to the US dollar value of the NIS calculated by reference to the spot rate of exchange in effect on the date the distribution is received by the US holder or, in the case of ADSs, by the Depositary. If a US holder converts dividends paid in NIS into US dollars on the day such dividends are received, the US holder generally should not be required to recognize foreign currency gain or loss with respect to such conversion. If the NIS received in the distribution are not converted into US dollars on the date of receipt, any foreign currency gain or loss recognized upon a subsequent conversion or other disposition of the NIS will be treated as US source ordinary income or loss. Special rules govern and special elections are available to accrual method taxpayers to determine the US dollar amount includible in income in the case of taxes withheld in a foreign currency. Accrual basis taxpayers are urged to consult their own tax advisors regarding the requirements and the elections applicable in this regard.

Any dividends paid by us to a US holder on the ordinary shares or ADSs will be treated as foreign source income and generally will be categorized as “passive income” for US foreign tax credit purposes. Subject to the limitations in the Code, as modified by the US Treaty, a US holder may elect to claim a foreign tax credit against its US federal income tax liability for Israeli income tax withheld from dividends received in respect of ordinary shares or ADSs. US holders who do not elect to claim the foreign tax credit may instead claim a deduction for Israeli income tax withheld, but only for a year in which the US holder elects to do so with respect to all foreign income taxes. A deduction does not reduce US tax on a dollar-for-dollar basis like a tax credit. The deduction, however, is not subject to the limitations applicable to foreign tax credits. The rules relating to the determination of the foreign tax credit are complex. Accordingly, if you are a US holder of ordinary shares or ADSs, you should consult your own tax advisor to determine whether and to what extent you would be entitled to the credit.

Certain US holders (including individuals) are eligible for reduced rates of US federal income tax in respect of “qualified dividend income”. For this purpose, qualified dividend income generally includes dividends paid by a non-US corporation if, among other things, the US holders meet certain minimum holding period requirements and the non-US corporation satisfies certain requirements, including that either (i) the shares (or ADSs) with respect to which the dividend has been paid are readily tradable on an established securities market in the United States, or (ii) the non-US corporation is eligible for the benefits of a comprehensive US income tax treaty (such as the US Treaty) which provides for the exchange of information. We currently believe that dividends paid with respect to our ordinary shares and ADSs should constitute qualified dividend income for US federal income tax purposes. We anticipate that our dividends will be reported as qualified dividends on Forms 1099-DIV delivered to US holders. In computing foreign tax credit limitations, non-corporate US Holders may take into account only a portion of a qualified dividend to reflect the reduced US tax rate applicable to such dividend. Individual US holders of ordinary shares or ADSs are urged to consult their own tax advisors regarding the availability of the reduced dividend tax rate in light of their own particular situation and regarding the computations of their foreign tax credit limitation with respect to any qualified dividend income paid by us, as applicable.

Sale, Exchange or Other Taxable Disposition

Upon the sale, exchange or other taxable disposition of ordinary shares or ADSs, a US holder generally will recognize capital gain or loss equal to the difference between the US dollar value of the amount realized on the sale, exchange or other taxable disposition and the US holder’s adjusted tax basis, determined in US dollars, in the ordinary shares or ADSs. Any gain or loss recognized upon the sale, exchange or other taxable disposition of the ordinary shares or ADSs will be treated as long-term capital gain or loss if, at the time of the sale, exchange or other taxable disposition, the holding period of the ordinary shares or ADSs exceeds one year. In the case of individual US holders, capital gains generally are subject to US federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses by a US holder is subject to significant limitations. US holders should consult their own tax advisors in this regard.

In general, gain or loss recognized by a US holder on the sale, exchange or other taxable disposition of ordinary shares or ADSs will be US source income or loss for US foreign tax credit purposes. Pursuant to the US Treaty, however, gain from the sale or other taxable disposition of ordinary shares or ADSs by a holder who is a US resident, for US Treaty purposes, and who sells the ordinary shares or ADSs within Israel may be treated as foreign source income for US foreign tax credit purposes.

US holders who hold ordinary shares or ADSs through an Israeli stockbroker or other Israeli intermediary may be subject to an Israeli withholding tax on any capital gains recognized if the US holder does not obtain approval of an exemption from the Israeli Tax Authorities. See “Israeli Tax Considerations” above. US holders are advised that any Israeli tax paid under circumstances in which an exemption from such tax was available will not give rise to a deduction or credit for foreign taxes paid for US federal income tax purposes. US holders are advised to consult their Israeli stockbroker or intermediary regarding the procedures for obtaining an exemption.

If a US holder receives NIS upon the sale of ordinary shares, that US holder may recognize ordinary income or loss as a result of currency fluctuations between the date of the sale of the ordinary shares and the date the sales proceeds are converted into US dollars.

Passive Foreign Investment Company Rules

A non-US corporation will be classified as a Passive Foreign Investment Company (a “PFIC”) for any taxable year if (i) at least 75% of its gross income consists of passive income, (such as dividends, interest, rents, royalties (other than rents or royalties derived in the active conduct of a trade or business and received from an unrelated person) and gains on the disposition of certain minority interests or (ii) at least 50% of the average value of its assets consist of assets that produce, or are held for the production of, passive income. We currently believe that we were not a PFIC for the year ended December 31, 2015. However, this conclusion is a factual determination that must be made at the close of each year and is based on, among other things, a valuation of our ordinary shares, ADSs and assets, which will likely change from time to time. If we were characterized as a PFIC for any taxable year, a US holder would suffer adverse tax consequences. These consequences may include having the gains that are realized on the disposition of ordinary shares or ADSs treated as ordinary income rather than capital gains and being subject to punitive interest charges with respect to certain dividends and gains and on the sale or other disposition of the ordinary shares or ADSs. Furthermore, dividends paid by a PFIC are not eligible to be treated as “qualified dividend income” (as discussed above). In addition, if a US holder holds ordinary shares or ADSs in any year in which we are treated as a PFIC, such US holder will be subject to additional tax form filing and reporting requirements.

Application of the PFIC rules is complex. US holders should consult their own tax advisors regarding the potential application of the PFIC rules to the ownership of our ordinary shares or ADSs.

Information Reporting and Backup Withholding

Dividend payments with respect to ordinary shares or ADSs and proceeds from the sale, exchange or other disposition of ordinary shares or ADSs may be subject to information reporting to the Internal Revenue Service (the “IRS”) and possible US backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. US persons who are required to establish their exempt status generally must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Non-US holders generally will not be subject to US information reporting or backup withholding. However, such holders may be required to provide certification of non-US status (generally on IRS Form W-8BEN or IRS W-8BEN-E) in connection with payments received in the United States or through certain US-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's US federal income tax liability, and a holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS and furnishing any required information in a timely fashion.

In addition, certain US holders who are individuals that hold certain foreign financial assets as defined in the Code (which may include ordinary shares or ADSs) are required to report information relating to such assets, subject to certain exceptions.

10F. Dividends and Paying Agents

Not applicable.

10G. Statement By Experts

Not applicable.

10H. Documents on Display

Reports and other information of Partner filed electronically with the US Securities and Exchange Commission may be found at www.sec.gov. They can also be inspected without charge and copied at prescribed rates at the public reference facilities maintained by the SEC in Room 1024, 450 Fifth Avenue, N.W., Washington, D.C. 20549.

10I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

11A. General

We are exposed to market risk, including movements in foreign currency exchange and inflation-indexed interest rates. Since May 2013, we have not entered into any derivative transactions to hedge underlying exposure to foreign currencies. As a matter of policy, we do not enter into transactions of a speculative or trading nature. Interest rate and foreign exchange exposures are monitored by tracking actual and projected commitments and through the use of sensitivity analysis.

We have liabilities in NIS linked to the CPI and in foreign currencies. The following table provides information derived from the financial statements about these liabilities as of December 31, 2014 and 2015.

Non-Derivative Instruments

	As of December 31, (NIS equivalent in millions, except percentages)			
	2015		2014	
	Fair Value	Book Value	Fair Value	Book Value
NIS-denominated debt linked to the CPI (1)				
Long-term fixed Notes payable series B due 2016	123	121	254	243
Weighted average interest rate payable		3.4%		3.4%
Long-term fixed Notes payable series C due 2018	724	695	750	701
Weighted average interest rate payable		3.35%		3.35%
Long-term borrowing bearing fixed interest			557	532
Weighted average interest rate payable				2.75%
Long-term borrowing bearing fixed interest	210	198	216	199
Weighted average interest rate payable		3.42%		3.42%
Other payables (2)	1	1	1	1
NIS-denominated debt not linked to the CPI				
Long-term variable interest Notes payable series D due 2021	548	543	538	542
Weighted average interest rate payable		1.34%		1.82%
Long-term fixed Notes payable series E due 2017	399	371	607	556
Weighted average interest rate payable		5.5%		5.5%
Long-term borrowing bearing variable interest (2)	152	152	152	152
Weighted average interest rate payable		1.63%		2.08%
Long-term borrowing bearing fixed interest	170	150	176	150
Weighted average interest rate payable		5.70%		5.70%
Long-term borrowing bearing fixed interest	200	200	200	200
Weighted average interest rate payable		3%		3
Long-term borrowing bearing fixed interest	198	196		
Weighted average interest rate payable		3%		
Long-term borrowing bearing fixed interest	75	75		
Weighted average interest rate payable		3.71%		
Long-term borrowing bearing fixed interest	203	200		
Weighted average interest rate payable		4.25%		
Long-term borrowing bearing fixed interest	200	200		
Weighted average interest rate payable		3.884%		
Trade payables and others (2)	630	630	662	662
Debt denominated in foreign currencies (2)				
Trade payables denominated in USD	117	117	187	187
Trade payables denominated in other foreign currencies (mainly Euro)	46	46	46	46
Total	3,995	3,894	4,346	4,171

(1) Amounts due for payment of principal and interest are adjusted according to the CPI. See "Item 5B Liquidity and Capital Resources".

(2) Book value approximates fair value.

11B. Foreign Exchange and Inflation

Substantially all of our revenues and a majority of our operating expenses are denominated in NIS. However, in 2015, between one quarter and one third of our operating expenses were linked to non-NIS currencies, mainly the US dollar. These expenses related mainly to the acquisition of handsets and other equipment where the price paid by us is based on various foreign currencies, mainly the US dollar. Since May 2013, we do not enter into derivative transactions and thus we are exposed to the aforementioned foreign currency fluctuations. We do not hold or issue derivative financial instruments for trading purposes. In addition, a substantial amount of our capital expenditures are incurred in, or linked to, non-NIS currencies, mainly the US dollar. See Note 6 to the consolidated financial statements for description of the market risks.

Our Notes payable series B, C and our borrowings in a total principal amount of NIS 1,014 million as of December 31, 2015, are currently in NIS and are linked to the CPI. We may not be able to raise our tariffs pursuant to our license in a manner that would fully compensate for any increase in the CPI. Therefore, an increase in the rate of inflation may also have a material adverse impact upon us by increasing our finance expenses without an offsetting increase in revenue. In 2015, the CPI effective as of December 31, 2015, decreased 0.9%, compared to the CPI effective as of December 31, 2014, causing income of NIS 9 million in our finance costs, net, compared to a decrease of 0.1% in 2014, which caused expenses of NIS 3 million in finance costs, net. See Note 24 to the consolidated financial statements.

Sensitivity analysis

A change of the CPI as at December 31, 2015, would increase (decrease) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	<u>Change</u>	<u>Equity</u>	<u>Profit</u>
		<u>New Israeli Shekels</u>	
		<u>in millions</u>	
December 31, 2015			
Increase in the CPI of	2.0%	(20)	(20)
Decrease in the CPI of	(2.0)%	20	20

A change of the USD exchange rate as at December 31, 2015, would increase (decrease) equity and profit in 2015 by the amounts shown below as regards assets and liabilities as of December 31, 2015, and expected capital expenditure purchases in 2016. The analysis below does not take into account the effect of any change in USD with respect to possible future commitments and other future expected purchases in US dollars, since the Company believes that it will be able to adjust NIS prices for goods and services it sells in the Israeli market to reflect any significant increases in cost resulting from changes in the NIS-USD exchange rate. This analysis assumes that all other variables remain constant.

	<u>Change</u>	<u>Equity</u>	<u>Profit</u>
		<u>New Israeli Shekels</u>	
		<u>in millions</u>	
December 31, 2015			
Increase in the USD of	10%	(13)	(13)
Decrease in the USD of	(10)%	14	14

11C. Interest rates

Since some of our notes payable and non-current borrowings bear variable interest rate, changes in interest rates cause cash flow risks. As of December 31, 2015, our Notes payable series D in a principal amount of NIS 543 million, and our borrowing in a principal amount of NIS 152 million bear variable rates of interest.

Sensitivity analysis

An increase (decrease) of 1% interest rates during 2015 in respect of our notes payable and non-current borrowing bearing variable interest would have resulted in an annual increase (decrease) in interest expenses (income) of NIS 7 million. This analysis assumes that all other variables remain constant.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Fees and charges payable by ADR holders

Citibank serves as the depositary (the "Depositary") for our American Depositary Receipt ("ADR") program. Pursuant to the deposit agreement between the Company, the Depositary and owners and holders of ADRs (the "Deposit Agreement"), ADR holders may be required to pay various fees to the Depositary. In particular, the Depositary, under the terms of the Deposit Agreement, may charge the following fees: (i) Issuance Fee: to any person depositing shares or to whom ADSs are issued upon the deposit of shares, a fee not in excess of \$5.00 per 100 ADSs (or fraction thereof) (excluding issuances as a result of distributions described in paragraph (iv) below); (ii) Cancellation Fee: to any person surrendering ADSs for cancellation and withdrawal of deposited securities or to any person to whom deposited securities are delivered, a fee not in excess of \$5.00 per 100 ADSs (or fraction thereof) surrendered; (iii) Cash Distribution Fee: to any holder of ADS(s), a fee not in excess of \$5.00 per 100 ADSs (or fraction thereof) held for the distribution of cash dividends or other cash distributions (i.e., sale of rights and other entitlements); (iv) Stock Distribution/Rights Exercise Fee: to any holder of ADS(s), a fee not in excess of \$5.00 per 100 ADSs (or fraction thereof) held for (a) stock dividends or other free stock distributions or (b) exercise of rights to purchase additional ADSs; (v) Other Distribution Fee: to any holder of ADS(s), a fee not in excess of \$5.00 per 100 ADSs (or fraction thereof) held for the distribution of securities other than ADSs or rights to purchase additional ADSs (i.e., spin-off shares); and (vi) Depositary Services Fee: to any holder of ADS(s), a fee not in excess of \$5.00 per 100 ADSs (or fraction thereof) held on the applicable record date(s) established by the Depositary. The parties agreed to allow Citibank to charge an additional \$1.00 per 100 ADSs (a fee not in excess of \$6.00 in aggregate) in the event that the Company does not pay cash or stock dividends.

Owners, beneficial owners, persons depositing shares and persons surrendering ADSs for cancellation and for the purpose of withdrawing deposited securities shall be responsible for the following charges: (a) taxes (including applicable interest and penalties) and other governmental charges; (b) such registration fees as may from time to time be in effect for the registration of shares or other deposited securities on the share register and applicable to transfers of shares or other deposited securities to or from the name of the custodian, the Depositary or any nominees upon the making of deposits and withdrawals, respectively; (c) such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing or withdrawing shares or owners and beneficial owners of ADSs; (d) the expenses and charges incurred by the Depositary in the conversion of foreign currency; (e) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to Shares, deposited securities, ADSs and receipts; and (f) the fees and expenses incurred by the Depositary, the Custodian, or any nominee in connection with the delivery or servicing of deposited securities.

Amounts received from the Depositary

During 2015, the Company received from Citibank payments in the amount of approximately \$636,586.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) *Disclosure Controls and Procedures*. Our management, including our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2015. Disclosure controls and procedures means controls and other procedures designed to ensure that information required to be disclosed in the reports that we file under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Nevertheless, our disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures in place as of December 31, 2015, were effective.

(b) *Management's Report on Internal Control over Financial Reporting.* Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of our records that in reasonable detail accurately and fairly reflect our transactions during the year;
- provide reasonable assurance that our transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles;
- provide reasonable assurance that our receipts and expenditures are made only in accordance with authorizations of our management and Board of Directors (as appropriate); and
- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

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

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2015, based on the framework for Internal Control-Integrated Framework (2013) set forth by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2015.

Our internal control over financial reporting as of December 31, 2015, has been audited by Kesselman & Kesselman, an independent registered public accounting firm in Israel and a member of PricewaterhouseCoopers International Limited, as stated in their report which is included under Item 18.

(c) *Attestation report of the registered public accounting firm.* The attestation report of Kesselman & Kesselman, an independent registered public accounting firm in Israel and a member of PricewaterhouseCoopers International Limited, regarding the Company's internal control over financial reporting is included under Item 18.

(d) *Changes in Internal Control Over Financial Reporting.* There were no significant changes in our internal control over financial reporting that occurred during the year ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16.

16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that Dr. Michael Anghel, Mr. Barry Ben-Zeev and Mr. Arik Steinberg are "audit committee financial experts" as defined in Item 16A of Form 20-F. All the members of the audit committee are "independent directors" as defined in the SEC requirements applicable to us.

16B. CODE OF ETHICS

In 2013, we reviewed, updated and expanded our Code of Ethics. As previously, the revised Code of Ethics applies to our directors, officers and employees. The principal modifications to our Code of Ethics adopted in 2013 include:

- a more complete statement setting forth the values underlying the Code of Ethics;
- a detailed guide to appropriate behavior toward interested parties, including customers, suppliers, employees, directors, shareholders, franchisers and the community in which the Company operates;
- the extension of the Code of Ethics to our affiliated companies; and
- additional guidance for ensuring compliance with the Code of Ethics.

A copy of our Code of Ethics is posted on our website at www.partner.co.il under "Investor Relations-Corporate Governance-Code of Ethics".

16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Kesselman & Kesselman, our independent registered public accounting firm in Israel and a member of PricewaterhouseCoopers International Limited ("PwC"), have served as our independent public accountants for each of the fiscal years in the three-year period ended December 31, 2015, for which audited financial statements appear in this annual report on Form 20-F.

The following table presents the aggregate fees for professional services rendered by PwC to Partner in 2014 and 2015.

	2014 (NIS thousands)	2015 (NIS thousands)
Audit Fees (1)	2,329	2,265
Audit-related Fees (2)	275	441
Tax Fees (3)	455	436
TOTAL	3,059	3,142

(1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor can reasonably provide, and include the group audit; statutory audits; comfort letters and consents; and assistance with and review of documents filed with the SEC.

(2) Audit-related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and include consultations concerning financial accounting and reporting standards, as well as the purchase of an accounting data base.

(3) Tax Fees include fees billed for tax compliance services, including the preparation of tax returns and claims for tax refund; tax consultations, such as assistance and representation in connection with tax audits and appeals, and requests for rulings or technical advice from taxing authority.

Audit Committee Pre-approval Policies and Procedures

Our audit committee's specific responsibilities in carrying out its oversight of the quality and integrity of the accounting, auditing and reporting practices of the Company include the approval of audit and non-audit services to be provided by the external auditor. The audit committee approves in advance the particular services or categories of services to be provided to the Company during the following yearly period and also sets forth a specific budget for such audit and non-audit services. Additional non-audit services may be pre-approved by the audit committee.

16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASES

Not applicable.

16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

16G. CORPORATE GOVERNANCE

See "Item 6C.56C.5 NASDAQ Corporate Governance Rules and Our Practices", and also "Item 10B Memorandum and Articles of Association".

ITEM 17. FINANCIAL STATEMENTS

The company has responded to "Item 18. Financial Statements" in lieu of responding to this item.

ITEM 18. FINANCIAL STATEMENTS

The following financial statements are filed as part of this annual report.

ITEM 19. EXHIBITS

Pursuant to the rules and regulations of the Securities and Exchange Commission, we have filed certain agreements as exhibits to this annual report on Form 20-F. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in our public disclosure, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe our actual state of affairs at the date hereof and should not be relied upon.

Exhibit No.	Description
1.1	Articles of Association last updated and approved on April 2, 2015
**1.2	Partner's Certificate of Incorporation
**1.3	Partner's Memorandum of Association
**2.(a).1	Form of Share Certificate
^^2.(a).2	Amended and Restated Deposit Agreement Between Partner and the Bank of New York
^^^2.(a).3	Amended and Restated Deposit Agreement Between Partner and Citibank N.A.
^2.(b).1	Form of Indenture between Partner and the Trust Company of Union Bank Ltd.
>>>>2.(b).2	Trust Deed
>>>>2.(b).3	Amendment no. 1 to the Trust Deed of November 26, 2009
^4.(a).1	Restatement of the Relationship Agreement dated April 20, 2005
>>>>4.(a).1.1	Letter of Undertaking by which Scalex entered into the Restated Relationship Agreement with the Company, October 28, 2009

+>>4.(a).1.2	Letter of Undertaking by which S.B. Israel Telecom entered into the Restated Relationship Agreement with the Company, January 29, 2013
4.(a).2	License from the Israeli Ministry of Communications issued April 8, 1998, as amended by the amendments filed with the SEC as exhibits to our annual reports on Form 20-F for each of the years ended December 31, 2000, through December 31, 2015 (the "Amended License").
**4.(a).4	License Agreement for use of the Orange Brand in Israel dated September 14, 1998
#+>4.(a).4.1	Restated Amendment, dated as of January 31, 2012, to the Brand License Agreement dated 14 September 1998
#4.(a).4.2	Settlement Agreement with Orange dated June 26, 2015
**4.(a).5	Brand Support/Technology Transfer Agreement dated July 18, 1999
**4.(a).6	Agreement with Ericsson Radio Systems AB dated May 28, 1998
#++4.(a).7	Agreement with LM Ericsson Israel Ltd. dated November 25, 2002
**4.(a).9	Lease Agreement with Mivnei Taasia dated July 2, 1998
^^^4.(a).13	Asset Purchase Agreement with Med-1 dated as of January 22, 2006
4.(a).14-57	[reserved]
>4.(a).58	Special License from the Israeli Ministry of Communications for the Provision of Fixed-Line Domestic Transmission and Data Communications Services issued August 14, 2006.
>4.(a).59	Amendment No. 1 to Special License for the Provision of Fixed-Line Domestic Transmission and Data Communications Services issued September 10, 2006.
>4.(a).60	Exclusive General License from the Israeli Ministry of Communication for the Provision of Domestic Fixed-Line Telecommunications Services issued January, 15 2007 as amended by the amendments filed with the SEC as exhibits to our annual reports on Form 20-F for each of the years ended December 31, 2006, through December 31, 2009 (the "Amended Domestic Fixed-Line License").
###4.(a).65	Purchase Agreement with Nortel Networks Israel (Sales and Marketing) Ltd. dated November 12, 2003.
#>>4.(a).67	Swap Agreement with LM Ericsson Israel Ltd. dated December 20, 2007
#4.(a).68	[reserved]
#>>>>4.(a).69	Facility Agreement dated November 24, 2009
#4.(a).70	[reserved]
#4.(a).71	[reserved]
>>>>>4.(a).72	012 Smile Share Purchase Agreement
>>>>>4.(a).73	English translation of the original Hebrew language 012 Smile Credit Facility, dated January 31, 2010
4.(a).74-84	[reserved]
4.(a).85+>>>	[reserved]
4.(a).86+>>>	[reserved]
4.(a).87+>>>	[reserved]
4.(a).88+>>>	[reserved]
4.(a).89+>>>	[reserved]
4. 4.(a).90+>>>>	[reserved]
4. 4.(a).91+>>>>	[reserved]
4. 4.(a).92+>>>>	[reserved]
4. 4.(a).93+>>>>	[reserved]
4. 4.(a).94+>>>>	[reserved]
4. 4.(a).95+>>>>	[reserved]
4. 4.(a).96+>>>>	[reserved]
4. 4.(a).97+>>>>	[reserved]
#>>>>>4.(b).1	Addendum to Lease Agreements from November 1, 2002 and Lease Agreements in Beit Ofek
>>>>>4.(b).2	Registration Rights Agreement with Scailex
4.(b).3+>>>	Registration Rights Agreement with S.B. Israel Telecom Ltd.

+>>6.	See Note 2x to the consolidated financial statements for information explaining how earnings (loss) per share information was calculated.
8.	List of Subsidiaries (see "Item 4C – Organizational Structure").
10.1	Consent of Kesselman & Kesselman
10.2	Consent of Giza Singer Even Ltd.
12.(a).1	Certification by CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
12.(a).2	Certification by CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
13.(a).1	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.(a).1	Amended and Restated 2004 Equity Incentive Plan as approved by the Board of Directors on March 13, 2016
15.(b).1+>>>	Compensation Policy adopted on October 17, 2013 (incorporated by reference to Exhibit C from the Company's Current Report on Form 6-K (file No. 001-14968) filed on September 12, 2013)

**	Incorporated by reference to our registration statement on Form F-1 (No. 333-10992).
++	Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2002.
+++	Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2003.
^	Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2004.
^^	Incorporated by reference to our registration statement on Form F-6 (No. 333-132680).
^^^	Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2005.
^^^^	Incorporated by reference to our registration statement on Form F-6 (No. 333-177621).
>	Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2006.
>>	Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2007.
>>>	Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2009.
>>>>	Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2010.
+>	Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2011.
+>>	Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2012.
+>>>	Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2013.
+>>>>	Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2014.
#	Confidential treatment requested.

Confidential material has been redacted and has been separately filed with the Securities and Exchange

SIGNATURES

The Company hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Partner Communications Company Ltd.

By: /s/ Isaac Benbenisti

Chief Executive Officer

March 14, 2016

By: /s/ Ziv Leitman

Chief Financial Officer

March 14, 2016

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)
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PARTNER COMMUNICATIONS COMPANY LTD.
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The amounts are stated in New Israeli Shekels (NIS) in millions.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of
PARTNER COMMUNICATIONS COMPANY LTD.

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

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

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

Tel-Aviv, Israel
March 13, 2016

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PriceWaterhouseCoopers International Limited

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

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

* Representing an amount of less than 1 million.

The financial statements were authorized for issue by the board of directors on March 13, 2016.

Isaac Benbenishti
Chief Executive Officer

Ziv Leitman
Chief Financial Officer

Barry Ben-Zeev (Woolfson)
Director

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

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

* Representing an amount of less than 1 million.

** Net of treasury shares.

*** Including shares held by trustee under the Company's Equity Incentive Plan, see note 21(a), such shares will become outstanding upon completion of vesting conditions, see note 21(b)

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

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

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

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

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

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

* Representing an amount of less than 1 million.

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

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

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

* Representing an amount of less than 1 million.

** Net of treasury shares.

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

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

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

* Representing an amount of less than 1 million.

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

PARTNER COMMUNICATIONS COMPANY LTD.
(An Israeli Corporation)

Appendix – Cash generated from operations and supplementary information

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

* Representing an amount of less than 1 million.

Supplementary information

At December 31, 2013, 2014 and 2015, trade and other payables include NIS 223 million, NIS 214 million and NIS 126 million (\$32 million), respectively, in respect of acquisition of intangible assets and property and equipment; payments in respect thereof are presented in cash flows from investing activities. These balances are recognized in the cash flow statements upon payment.

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

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

NOTE 1 - GENERAL

a. Reporting entity

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

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

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

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

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

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

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

b. Operating segments

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

(1) Cellular segment

The cellular segment includes cellular communication services such as airtime calls, international calls, messaging, browsing, content services, roaming services, and from other operators' usage of the Company's cellular network. Most of post-paid cellular tariff plans for private customers are bundles which include unlimited amounts of calls minutes and messaging, as well as browsing packages. Content services include voice mail, multimedia messaging and streaming broadcast content, as well as downloadable wireless data applications, including ringtones, GPS services, music, games, and other informational content.

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

NOTE 1 - GENERAL (continued)

b. Operating segments (continued)

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

(2) Fixed-line segment

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

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

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

c. Main recent regulatory developments

- (1) In February 2015 a regulation came into effect according to which each of the infrastructure owners - Bezeq and Hot are required to allow use of their broadband fixed-line infrastructure by telecommunication providers that do not have a broadband fixed-line infrastructure. This regulation allows telecommunication providers that do not have a broadband fixed-line infrastructure, including the Company and its subsidiaries, to offer internet access in one transaction (without requiring the subscriber to engage with both an internet access provider and an infrastructure provider). As a result, the Group commenced selling offers including both network infrastructure services using Bezeq's network and internet access service. Regulations about the above with respect to Hot are not completed yet.
- (2) See information in respect of frequency fees in note 17(1).
- (3) See information in respect of corporate tax rates in note 25.
- (4) See information in respect of 4G frequency awarded in note 1(d).

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL (continued)

d. Group licenses

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

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

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

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

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

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

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

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

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the financial statements

(1) Basis of preparation

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

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

(2) Use of estimates and judgments

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

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Foreign currency translations

(1) Functional and presentation currency

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

(2) Transactions and balances

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

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

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

c. Interests in other entities

(1) Subsidiaries

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

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

List of wholly owned Subsidiaries and partnerships:

012 Smile Telecom Ltd.

012 Telecom Ltd.

Partner Land-Line Communication Solutions - Limited Partnership

Partner Future Communications 2000 Ltd. ("PFC")

Partner Business Communications Solution - Limited Partnership – not active

Partner Net Ltd. – not active

012 Mobile GP Ltd. – not active

Golden Lines 012 Telecommunication Services 2001 Ltd. – not active

012 Mobile Limited Partnership – not active

PARTNER COMMUNICATIONS COMPANY LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Interests in other entities (continued)

(2) Investment in PHI

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

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Inventories

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

e. Property and equipment

Property and equipment are initially stated at cost.

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

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

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Property and equipment (continued)

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

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

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

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

f. Licenses and other intangible assets

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

- (a) The licenses to operate cellular communication services were recognized at cost. Borrowing costs which served to finance the license fee - incurred until the commencement of utilization of the license - were capitalized to cost of the license.
- (b) Partner Land-line Communication solutions – limited partnership's license for providing fixed-line communication services is stated at cost.
- (c) 012 Smile and its subsidiaries' licenses were recognized at fair value in a business combination as of the acquisition date of 012 Smile March 3, 2011.

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Licenses and other intangible assets (continued)

(2) Computer software:

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

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

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

(3) Customer relationships:

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

(4) 012 Smile trade name:

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Licenses and other intangible assets (continued)

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

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

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

g. Right Of Use (ROU)

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

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

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

h. Goodwill

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Goodwill (continued)

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

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

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

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

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

j. Financial instruments

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Financial instruments (continued)

(1) Financial instruments at fair value through profit or loss category:

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

(2) Loans and receivables category:

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

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

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

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

(3) Financial liabilities and borrowings at amortized cost category:

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Employee benefits

(i) Post-employment benefits

1. Defined contribution plan

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

2. Defined benefit plan

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

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Employee benefits (continued)

(ii) Termination benefits

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

(iii) Short term employee benefits

1. Vacation and recreation benefits

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

2. Profit-sharing and bonus plans

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

l. Share based payments

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Provisions

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

- (1) In the ordinary course of business, the Group is involved in a number of lawsuits and litigations. The costs that may result from these lawsuits are only accrued for when it is probable that a liability, resulting from past events, will be incurred and the amount of that liability can be quantified or estimated within a reasonable range. The amount of the provisions recorded is based on a case-by-case assessment of the risk level, and events arising during the course of legal proceedings that may require a reassessment of this risk, and where applicable discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Group's assessment of risk is based both on the advice of legal counsel and on the Group's estimate of the probable settlements amount that are expected to be incurred, if any. See also note 20.
- (2) The Company is required to incur certain costs in respect of a liability to dismantle and remove assets and to restore sites on which the assets were located. The dismantling costs are calculated according to best estimate of future expected payments discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as finance costs (unwinding of discount).
- (3) Provisions for equipment warranties include obligations to customers in respect of equipment sold. Where there are a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Revenues

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

(1) Revenues from services:

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

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Revenues (continued)

(2) Revenues from sales of equipment:

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

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

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

(3) Revenues from non-current credit arrangements:

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Leases

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

p. Advertising expenses

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

q. Tax expenses

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

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

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Share capital

Ordinary shares are classified as equity.

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

s. Earnings Per Share (EPS)

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

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

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

NOTE 3 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

(5) Amendments to IFRS 7, *Financial Instruments: Disclosures*. The first amendment provides guidance for transferred financial assets to help management to determine whether the terms of a servicing arrangement constitute 'continuing involvement'. The Second amendment clarifies the additional disclosures relating to the offsetting of financial assets and financial liabilities only required in interim reports if required by IAS 34. The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Group assesses that the amendment's impact on the financial statements is not expected to be material.

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

a. Critical accounting estimates and assumptions

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

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

(2) Assessing the useful lives of assets:

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a. Critical accounting estimates and assumptions (continued)

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

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

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

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a. Critical accounting estimates and assumptions (continued)

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

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

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

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

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

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

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

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

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

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

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a. Critical accounting estimates and assumptions (continued)

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

Sensitivity Analysis:

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

(5) Assessing allowance for doubtful accounts:

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

(6) Considering uncertain tax positions:

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

(1) Considering the likelihood of contingent losses and quantifying possible settlements:

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

(2) Considering sales with multiple deliverables:

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

(3) Accounting treatment for the investment in PHI:

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 – SEGMENT INFORMATION

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 – SEGMENT INFORMATION (continued)

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

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

* Representing an amount of less than 1 million.

(1) Mainly amortization of employee share based compensation.

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

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

NOTE 6 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

a. Financial risk factors

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

1. Risk Management

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

2. Market risks

(a) Description of market risks

Cash flow risk due to interest rate changes and CPI changes

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

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

Foreign exchange risk

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

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

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

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

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

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

Sensitivity analysis:

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

a. Financial risk factors (continued)

2. Market risks (continued)

(b) Analysis of linkage terms of financial instruments balances

December 31, 2015					
	In or linked to USD	In or linked to other foreign currencies (mainly EURO)	NIS linked to CPI	NIS unlinked	Total
	New Israeli Shekels In millions				
Current assets					
Cash and cash equivalents		1		925	926
Trade receivables*	50	50		957	1,057
Other receivables				31	31
Non- current assets					
Trade receivables				492	492
Total assets	<u>50</u>	<u>51</u>		<u>2,405</u>	<u>2,506</u>
Current liabilities					
Current maturities of notes payable and borrowings			353	201	554
Trade payables*	117	46		552	715
Payables in respect of employees				68	68
Other payables				10	10
Non- current liabilities					
Notes payable			463	727	1,190
Borrowings from banks and others			198	1,159	1,357
Total liabilities	<u>117</u>	<u>46</u>	<u>1,014</u>	<u>2,717</u>	<u>3,894</u>
		In or linked to foreign currencies			
		New Israeli Shekels in millions			
* Accounts that were set-off under enforceable netting arrangements					
Trade receivables gross amounts		248			
Set-off		(148)			
Trade receivables, net		<u>100</u>			
Trade payables gross amounts		311			
Set-off		(148)			
Trade payables, net		<u>163</u>			

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

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

a. Financial risk factors (continued)

2. Market risks (continued)

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

December 31, 2014					
	In or linked to USD	In or linked to other foreign currencies (mainly EURO)	NIS linked to CPI	NIS unlinked	Total
	New Israeli Shekels In millions				
Current assets					
Cash and cash equivalents	28	1		634	663
Trade receivables*	48	64		836	948
Other receivables				12	12
Non- current assets					
Trade receivables				418	418
Total assets	76	65		1,900	2,041
Current liabilities					
Current maturities of notes payable			122	187	309
Trade payables*	187	46		571	804
Payables in respect of employees				85	85
Other payables			1	6	7
Derivative financial instruments	3				3
Non- current liabilities					
Notes payable			822	911	1,733
Borrowings from banks and institutions			731	502	1,233
Total liabilities	190	46	1,676	2,262	4,174
	In or linked to foreign currencies				
	New Israeli Shekels in millions				
* Accounts that were set-off under enforceable netting arrangements					
Trade receivables gross amounts		302			
Set-off		(190)			
Trade receivables, net		112			
Trade payables gross amounts		423			
Set-off		(190)			
Trade payables, net		233			

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

a. Financial risk factors (continued)

2. Market risks (continued)

(c) Details regarding the derivative financial instruments

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

a. Financial risk factors (continued)

3. Credit risk

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

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

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

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

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

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

a. Financial risk factors (continued)

4. Liquidity risk

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

Maturities of financial liabilities as of December 31, 2015:

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

(*) Linked to the CPI as of December 31, 2015

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

See note 15 in respect of borrowings and notes payable.

b. Capital risk management

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

See note 15 (5) regarding covenants.

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

c. Fair values of financial instruments

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

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

		December 31, 2014			December 31, 2015		
	Category	Carrying amount	Fair value	Interest rate used (**)	Carrying amount	Fair value	Interest rate used (**)
New Israeli Shekels in millions							
Assets							
Cash and cash equivalents	L&R	663	663		926	926	
Trade receivables	L&R	1,366	1,372	4.21%	1,549	1,552	3.73%
Other receivables (*)	L&R	12	12		6	6	
Liabilities							
Notes payable series B	AC	243	254	Market quote	121	123	Market quote
Notes payable series C	AC	701	750	Market quote	695	724	Market quote
Notes payable series D	AC	542	538	Market quote	543	548	Market quote
Notes payable series E	AC	556	607	Market quote	371	399	Market quote
Trade and other payables (*)	AC	896	896		793	793	
Borrowing A	AC	532	557	1.10%			
Borrowing C	AC	75	88	2.38%	75	85	2.66%
Borrowing D	AC	75	88	2.38%	75	85	2.66%
Borrowing E (*)	AC	152	152		152	152	
Borrowing F	AC	199	216	1.70%	198	210	1.79%
Borrowing G	AC	100	100	3.08%	100	100	3.08%
Borrowing H	AC	100	100	2.93%	100	100	2.93%
Borrowing I	AC				120	121	3.17%
Borrowing J	AC				76	77	2.75%
Borrowing K	AC				75	75	3.71%
Borrowing L	AC				200	203	4.25%
Borrowing M	AC				200	200	3.884%
Derivative financial instruments	FVTPL						
	Level 2	3	3		*	*	

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

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

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

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NOTE 7 – TRADE RECEIVABLES

(a) Composition:

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

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

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

(b) Allowance for doubtful accounts:

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

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

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

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NOTE 7 – TRADE RECEIVABLES (continued)

(b) Allowance for doubtful accounts (continued)

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

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

NOTE 8 – INVENTORY

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

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NOTE 9 – INVESTMENT IN PHI

Network sharing agreement and right of use

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

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

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

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

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

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

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NOTE 9 – INVESTMENT IN PHI (continued)

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

	<u>As at December 31</u> <u>2015</u> <u>NIS in millions</u>
Current assets	26
Non-current assets	8
Current liabilities	24
Non-current liabilities	8
Supplemental information relating to associates:	
Commitments for operating leases	7
Commitments to purchase property and equipment	4
	<u>Year ended</u> <u>December 31</u> <u>2015</u> <u>NIS in millions</u>
Summarized statement of income	
Revenue	94
Pre-tax Profit	*
After-tax profit	*
Total comprehensive income	*
Reconciliation to carrying amount:	
Opening net assets January 1, 2015	-
Profit for the period	*
Partners contributions	2
Closing net assets	2
Carrying amount: Group's share (50%)	1

* Representing an amount of less than NIS 1 million.

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

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

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NOTE 10 – PROPERTY AND EQUIPMENT

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

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

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

(**) See note 13(2)

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NOTE 11 –INTANGIBLE ASSETS

Intangible assets with finite economic useful lives:

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

	New Israeli Shekels		
	Year ended December 31		
	2013	2014	2015
	In millions		
Amortization expenses and impairments charged to the income statement:			
Cost of revenues	183	200	214
Selling and marketing expenses	29	28	39
	212	228	253
(*) Cost additions include capitalization of salary and employee related expenses	45	44	35

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

(***) See note 13(2).

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NOTE 12 – DEFERRED EXPENSES – RIGHT OF USE

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

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

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

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NOTE 13 – IMPAIRMENT TESTS

(1) Goodwill impairment tests

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

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

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

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

(2) Impairment tests of assets with finite useful lives

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

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

- (i) The Group reviewed the recoverability of the VOB/ISP CGU assets. As a result, an impairment charge in a total amount of NIS 98 million was recognized. The impairment charge was allocated to the assets of the CGU pro rata, on the basis of the carrying amount of each asset, provided that the impairment did not reduce the carrying amount of an asset below the highest of its fair value less costs to sell and its value-in-use, and zero. Accordingly, the following impairment charges were recorded in the assets of the above CGU:
- (a) Right of use by NIS 76 million, recorded in cost of revenues (see note 12).
 - (b) Customer relationships by NIS 8 million, recorded in selling and marketing expenses.
 - (c) Computers and information systems by NIS 7 million, recorded in cost of revenues.
 - (d) Communication network by NIS 5 million, recorded in cost of revenues.
 - (e) Trade name by NIS 2 million, recorded in selling and marketing expenses.

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NOTE 13 – IMPAIRMENT TESTS (continued)

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

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

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

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NOTE 14 – PROVISIONS

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

* Representing an amount of less than 1 million.

** See also note 20.

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NOTE 15 –BORROWINGS AND NOTES PAYABLE

(1) Borrowings and Notes Payable

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

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

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

Composition as of December 31, 2015:

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

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

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

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

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

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

(2) Principal prepayments made

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 –BORROWINGS AND NOTES PAYABLE (continued)

(3) New borrowings received

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

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

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

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

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

(4) Loan Commitments

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 15 –BORROWINGS AND NOTES PAYABLE (continued)

(5) Financial covenants

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

- (1) The ratio of (a) the amount of all financial obligations of the Company including bank guarantees that the Company has undertaken ("Total Debt") to (b) EBITDA less Capital Expenditures shall not exceed 6.5 (the ratio as of December 31, 2014 and 2015 was 5.1 and 5.5, respectively); and
- (2) The ratio of (a) Total Debt to (b) the EBITDA of the Company shall not exceed 4 (the ratio as of December 31, 2014 and 2015 was 3.1 and 3.8, respectively).

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

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

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

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

(6) Negative pledge

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 16 - LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT

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

(1) Defined contribution plan:

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

(2) Defined benefit plan:

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

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

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

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

Remeasurements are recognized in the statement of comprehensive income.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The principal actuarial assumptions used were as follows:

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

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

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

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

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

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

	NIS in millions
2016	45
2017	14
2018	11
2019 and 2020	16
2021 and thereafter	73
	<u>159</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 – COMMITMENTS

- (1) Under the Telegraph Regulations the Company is committed to pay an annual fixed fee for each frequency used. For the years 2013, 2014 and 2015 the Company paid a total amount of approximately NIS 60 million, NIS 60 million and NIS 65 million, respectively. Under the above Regulations should the Company choose to return a frequency, such payment is no longer due.
- (2) At December 31, 2015, the Group is committed to acquire property and equipment and software elements for approximately NIS11 million.
- (3) At December 31, 2015, the Group is committed to acquire inventory in an amount of approximately NIS 647 million.

(4) Right of Use (ROU)

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 17 – COMMITMENTS (continued)

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

As of December 31, 2105, the Group has provided bank guarantees in respect of licenses (see note 1(d)) in an amount of NIS 127 million, in addition to bank guarantees in favor of other parties in an aggregate amount of approximately NIS 77 million. The total bank guarantees provided by the Group as of December 31, 2015 is NIS 204 million.
- (7) Covenants and negative pledge – see note 15(5), (6).
- (8) See note 15 (4) with respect of loan commitments.
- (9) Operating leases – see note 19.
- (10) See note 9 with respect to network sharing and right of use agreements.

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

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

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

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

NOTE 19 – OPERATING LEASES

The Group has entered into operating lease agreements as follows:

- (1) The Group leases its headquarter facilities in Rosh Ha-ayin, Israel, with a total of approximately 51,177 gross square meters (including parking lots). The lease term is until the end of 2024. The rental payments are linked to the Israeli CPI.
- (2) The Group also leases five call centers in Haifa, Jerusalem, Rehovot, Rishon Lezion and Beer-Sheva and also retail stores. The leases for each site have different lengths and specific terms. Lease agreements for service centers and retail stores for a period of two to ten years. The Group has options to extend some lease contract periods for up to twenty years (including the original lease periods). Some of the rental payments are linked to the dollar or to the Israeli CPI. Some of the extension options include an increase of the lease payment in a range of 2%-10%.
- (3) Lease agreements in respect of cell sites and switching stations throughout Israel are for periods of two to ten years. The Company has an option to extend some of the lease contract periods for up to ten years (including the original lease periods). Some of the rental payments fees are linked to the dollar or linked to the Israeli CPI. Some of the extension options include an increase of the lease payment in a range of 2%-10%.
- (4) As of December 31, 2015 operating lease agreements in respect of vehicles are for periods of up to three years. The rental payments are linked to the Israeli CPI.
- (5) Non-cancelable minimum operating lease rentals in respect of all the above leases are payable including option periods which are reasonably certain are as follows:

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 20 – LAWSUITS AND LITIGATIONS

A. Claims

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

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

1. Consumer claims

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

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

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

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

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

1. On April 13, 2011, a claim and a motion to certify the claim as a class action were filed against Partner. The claim alleges that Partner sent a message to its customers that their internet package was fully utilized before it was fully utilized. The amount claimed in the lawsuit was estimated by the plaintiffs to be approximately NIS 4.6 million. On June 26, 2013, the Court approved the motion and recognized the lawsuit as a class action. On August 19, 2013, Partner filed a request to appeal to the Supreme Court. On February 21, 2014, the Supreme Court dismissed Partner's request, and a hearing has been set. On January 6, 2015, the parties filed a request to approve a settlement agreement. On July 13, 2015, the parties filed an amended request to approve the settlement agreement.
2. On May 12, 2011, a claim and a motion to certify the claim as a class action were filed against the Company. The claim alleges that the Company misled certain subscribers with respect to terms and conditions of a content back up service for cellular handsets. The total amount claimed from the Company is estimated by the plaintiffs to be approximately NIS 35 million. On August 27, 2013, the Court approved the motion and recognized the lawsuit as a class action. Partner estimates that even if the claim will be decided in favor of the relevant customers, the damages that Partner will be required to pay for, will be immaterial.

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

NOTE 20 – LAWSUITS AND LITIGATIONS (continued)

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 20 – LAWSUITS AND LITIGATIONS (continued)

b. Alleged breach of license, Telecom law

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

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

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

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

1. On September 26, 2011, a claim and a motion to certify the claim as a class action were filed against Partner. The claim alleges that Partner unlawfully charged payments from customers who requested to port-in their phone number from another cellular operator for services which were given to them prior to the completion of the port-in. The amount claimed in the lawsuit was estimated by the plaintiffs to be approximately NIS 25 million. On March 3, 2013, the Tel-Aviv District Court approved the motion and recognized the lawsuit as a class action. On February 18, 2016, the parties filed a request to approve the settlement agreement. Partner estimates that even if the claim will be decided in favor of the relevant customers, the damages that Partner will be required to pay for, will be immaterial.
2. On May 6, 2010, a claim and a motion to certify the claim as a class action were filed against Partner. The claim alleges that Partner unlawfully charged its customers for opening handsets that were locked for use on other cellular networks (sim lock). The amount claimed in the lawsuit was estimated by the plaintiffs to be approximately NIS 20 million. On August 25, 2013, the Court approved the motion and recognized the lawsuit as a class action. On October 8, 2013, Partner filed a request to appeal to the Supreme Court. On June 27, 2014, the Supreme Court determined a credit mechanism for the relevant group of customers which the parties are implementing.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 20 – LAWSUITS AND LITIGATIONS (continued)

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

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

2. Environmental claims

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

3. Employees and suppliers claims

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

4. Other claims

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

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NOTE 20 – LAWSUITS AND LITIGATIONS (continued)

B. Contingencies in respect of building and planning procedures

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

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

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

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

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

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

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NOTE 21 – EQUITY AND SHARE BASED PAYMENTS

a. Share capital:

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

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

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

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

b. Share based compensation to employees

(1) Description of the Equity Incentive Plan

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

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

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

NOTE 21 - EQUITY AND SHARE BASED PAYMENTS (continued)

b. Share based compensation to employees (continued)

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

- **Exercise price adjustment:**
The exercise price of options shall be reduced in the following events: (1) dividend distribution other than in the ordinary course: by the gross dividend amount so distributed per share, and (2) dividend distribution in the ordinary course: the exercise price shall be reduced by the amount of a dividend in excess of 40% of the Company's net income for the relevant period per share, or by the gross dividend amount so distributed per share ("Full Dividend Mechanism"), depending on the date of granting of the options.
- **Cashless exercise:** Most of the options may be exercised only through a cashless exercise procedure, while holders of other options may choose between cashless exercise and the regular option exercise procedure. In accordance with such cashless exercise, the option holder would receive from the Company, without payment of the exercise price, only the number of shares whose aggregate market value equals the economic gain which the option holder would have realized by selling all the shares purchased at their market price, net of the option exercise price.

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

	Through December 31, 2015	
	Number of options	Number of RSAs
Granted	29,104,416	3,374,446
Shares issued upon exercises and vesting	(6,063,846)	(6,015)
Cancelled upon net exercises, expiration and forfeitures	(10,354,253)	(467,805)
Outstanding	12,686,317	2,900,626
Of which:		
Exercisable	4,615,076	-
Vest in 2016	2,678,117	947,599
Vest in 2017	2,673,710	966,815
Vest in 2018	2,673,682	966,792
Vest in 2019	45,732	19,420

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

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

NOTE 21 - EQUITY AND SHARE BASED PAYMENTS (continued)

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

	Year ended December 31					
	2013		2014		2015	
	Number	Weighted average exercise price NIS	Number	Weighted average exercise price NIS	Number	Weighted average exercise price NIS
Balance outstanding at the beginning of the year	7,523,748	44.02	6,928,382	43.46	8,962,116	32.08
Changes during the year:						
Granted	292,500	25.36	3,897,270	26.25	5,519,031	17.41
Exercised	(75,640)	13.66	(828,950)	16.30	(32,880)	13.12
Forfeited	(322,009)	30.63	(334,570)	32.83	(1,459,215)	28.7
Expired	(490,217)	54.31	(700,016)	57.72	(302,735)	58.61
Balance outstanding at the end of the year	6,928,382	43.46	8,962,116	32.08	12,686,317	29.52
Balance exercisable at the end of the year	4,818,696	52.02	4,902,943	47.25	4,615,076	45.97
Shares issued	41,294		385,943		14,511	
				Options granted in 2013	Options granted in 2014	Options granted in 2015
Weighted average fair value of options granted using the Black & Scholes option-pricing model – per option (NIS)				6.74	6.92	5.37
The above fair value is estimated on the grant date based on the following weighted average assumptions:						
Expected volatility				34.43%	31.66%	39.28%
Risk-free interest rate				1.78%	1.00%	0.54%
Expected life (years)				3	4	3
Dividend yield				*	*	*

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

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

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

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

NOTE 21 - EQUITY AND SHARE BASED PAYMENTS (continued)

(4) Information about outstanding options by expiry dates

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

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

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

NOTE 22 – EXPENSES

(a) Cost of revenues

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

(b) Selling and marketing expenses

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

(c) General and administrative expenses

	New Israeli Shekels		
	Year ended December 31,		
	2013	2014	2015
	In millions		
Wages, employee benefits expenses and car maintenance	80	71	84
Bad debts and allowance for doubtful accounts	50	39	63
Professional fees	25	27	31
Credit card and other commissions	23	18	16
Depreciation	17	11	9
Other	22	27	20
Total general and administrative expenses	217	193	223

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

NOTE 22 – EXPENSES (continued)

(d) Employee benefit expense

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

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

NOTE 23 – OTHER INCOME, NET

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

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

NOTE 24 – FINANCE COSTS, NET

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

* Representing an amount of less than 1 million

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

NOTE 25 – INCOME TAX EXPENSES

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

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

b. Corporate income tax rates applicable to the Group

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

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

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

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

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

NOTE 25 - INCOME TAX EXPENSES (continued)

c. Deferred income taxes

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

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

* Representing an amount of less than NIS 1 million.

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

NOTE 25 - INCOME TAX EXPENSES (continued)

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

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

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

* Representing an amount of less than NIS 1 million.

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

NOTE 25- INCOME TAX EXPENSES (continued)

e. Taxes on income included in the income statements:

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

f. Tax assessments:

- 1) The Company has received final corporate tax assessments through the year ended December 31, 2013.
- 2) A subsidiary has received final corporate tax assessments through the year ended December 31, 2012.
- 3) As general rule, tax self-assessments filed by another two subsidiaries through the year ended December 31, 2011 are, by law, now regarded as final. However, the manager of the tax authority may direct that the abovementioned last tax self-assessment will not be regarded as final until December 31, 2015.

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

NOTE 26 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a. Transactions with Scailex group

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

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

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

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

* Commencing January 1, 2015

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

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

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

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

b. Key management compensation

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

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

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

- c. In the ordinary course of business, key management or their relatives may have engaged with the Company with immaterial transactions that are under normal market conditions.
- d. Principal shareholder: On January 29, 2013, S.B. Israel Telecom Ltd. completed the acquisition of 48,050,000 ordinary shares of the Company and became the Company's principal shareholder. See also note 1(a).
- e. In order to encourage the Company's executive officers to remain with the Company following the acquisition by S.B. Israel Telecom of 30.87% of our issued and outstanding shares, principally from Scailex, the Company's Board of Directors, upon the recommendation and approval of its compensation committee, adopted a two-year retention plan on December 17, 2012, that became effective upon change of control on January 29, 2013. According to the terms of the plan, retention payments were made to each of the Company's eligible executive officers at the first and second anniversaries of the closing of the change of control (January 29, 2013), provided the executive officer had not resigned for reasons other than for certain justified reasons, (as specified in the retention plan) or in case of termination by the Company. The aggregate amount of all retention payments paid was NIS 6.5 million. In addition, on May 22, 2012, the Company's Board of Directors and audit committee, upon the recommendation and approval of its compensation committee, adopted a retention plan for the CEO according to which the CEO would receive an amount of NIS 1.8 million, provided that the CEO did not resign during the first year of the change of control or his employment was terminated by the Company under circumstances other than those that would deny his lawful right to severance payments and advanced notice. On December 29, 2013, the CEO notified the Company that he irrevocably waived any right to the said retention bonus.

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

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

f. Associates – investment in PHI

Balances and transactions with associates (see note 9).

	New Israeli Shekels
	Year ended December 31
	2015
	In millions
Operating expenses, net	(7)
	New Israeli Shekels
	December 31
	2015
Deferred expenses - Right of use	4
Current assets	25

NOTE 27 –EARNINGS (LOSS) PER SHARE

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

	Year ended December 31		
	2013	2014	2015
Profit (loss) used for the computation of basic and diluted EPS (NIS in millions)	135	162	(40)
Weighted average number of shares used in computation of basic EPS (in thousands)	155,658	155,802	156,081
Add - net additional shares from assumed exercise of employee stock options and restricted shared (in thousands)	541	598	0
Weighted average number of shares used in computation of diluted EPS (in thousands)	156,199	156,400	156,081
Number of options and restricted shares not taken into account in computation of diluted earnings per share, because of their anti-dilutive effect (in thousands)	5,378	8,101	15,587

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

NOTE 28 – SUBSEQUENT EVENT - COLLECTIVE EMPLOYMENT AGREEMENT

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

**Articles of Association
of
Partner Communications Company Ltd.**

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Chapter One - General

1. **Definitions and Interpretation**

1.1. The following terms in these Articles of Association bear the meaning appearing alongside them below:

<i>Articles of Association</i>	The Articles of Association of the Company, as set forth herein or as amended, whether explicitly or pursuant to any Law.
<i>Business Day</i>	Sunday to Thursday, inclusive, with the exception of holidays and official days of rest in the State of Israel.
<i>Companies Law</i>	The Companies Law, 1999, as amended.
<i>Companies Ordinance</i>	The Companies Ordinance [New Version], 1983, as amended.
<i>Companies Regulations</i>	Regulations issued pursuant to the Companies Ordinance or Companies Law.
<i>Company</i>	Partner Communications Company Ltd.
<i>Deed of Authorization</i>	As specified in Article 20 of these Articles.
<i>Director</i>	A Director of the Company in accordance with the definition in Section 1 of the Companies Law, including an Alternate Director or an empowered representative.
<i>Document</i>	A printout and any other form of written or printed words, including documents transmitted in writing, via facsimile, telegram, telex, e-mail, on a computer or through any other electronic instrumentation, producing or allowing the production of a copy and/or an output of a document.
<i>Founding Shareholder</i>	A "founding shareholder or its substitute" as defined in Section 21.8 of the License.
<i>Founding Israeli Shareholder</i>	A Founding Shareholder who also qualifies as an "Israeli Entity" as defined for purposes of Section 22A of the License.
<i>Financial Statements</i>	The balance sheet, profit and loss statement, statement of changes in the share capital and cash flow statements, including the notes attached to them.
<i>Law</i>	The provisions of any law (" <i>din</i> ") as defined in the Interpretation Law, 1981.
<i>License</i>	The Company's General License for the Provision of Mobile Radio Telephone Services using the Cellular Method in Israel dated April 7, 1998, and the permit issued by the Ministry of Communications dated April 7, 1998, as amended.

<i>Linkage</i>	Payments with respect to changes in the Israeli consumer price index or the representative exchange rate of NIS vis-a-vis the U.S. dollar, as published by the Bank of Israel, or any other rate which replaces such rate.
<i>Minimum Founding Shareholders Holding</i>	The minimum shareholding in the Company required to be held by Founding Shareholders pursuant to Section 22A.1 of the License.
<i>Minimum Israeli Holding</i>	The minimum shareholding in the Company required to be held by Founding Israeli Shareholders pursuant to Section 22A.2 of the License.
<i>NIS</i>	New Israeli Shekel
<i>Office</i>	The registered office of the Company.
<i>Office Holder</i>	An office holder of the Company in accordance with the definition of " <i>nose misra</i> " in Section 1 of the Companies Law.
<i>Ordinary Majority</i>	A simple majority of the shareholders who are entitled to vote and who voted in a General Meeting in person, by means of a proxy or by means of a deed of voting.
<i>Qualified Israeli Director</i>	A director who at all times (i) is a citizen of Israel and resident in Israel, (ii) qualifies to serve as a director under applicable law, (iii) qualifies as a Director with Clearance as defined in section 25A, and (iv) is appointed to the Board of Directors of the Company pursuant to section 23.2.6 of these Articles.
<i>Record Date</i>	The date on which a shareholder must be registered as a Shareholder in the Shareholders Register in order to receive the right to participate in and vote at an upcoming general meeting of Shareholders.
<i>Securities</i>	Shares, bonds, capital notes or securities negotiable into shares and certificates, conferring a right in such securities, or other securities issued by the Company.
<i>Securities Law</i>	The Securities Law, 1968, as amended.
<i>Securities Regulations</i>	Regulations issued pursuant to the Securities Law.
<i>Shares</i>	shares in the share capital of the Company.
<i>Shareholder</i>	Anyone registered as a shareholder in the Shareholder Register of the Company and any other shareholder of the Company.
<i>Shareholders Register</i>	the Company's Shareholders Register.
<i>Special Majority</i>	A majority of at least three quarters of the votes of shareholders who are entitled to vote and who voted in a general meeting, in person, by means of a proxy or by means of a deed of voting.

- 1.2. The provisions of Sections 3 through 10 of the Interpretation Law, 1981, shall also apply to the interpretation of these Articles of Association, mutatis mutandis, unless the context otherwise requires.
- 1.3. Except as otherwise provided in this Article, each word and expression in these Articles of Association shall have the meaning given to it in accordance with the Companies Law, and to the extent that no meaning is attached to it in the Companies Law, the meaning given to it in the Companies Regulations, and if they lack reference thereto, as stated, the meaning given to it in the Securities Law or Securities Regulations, and in the absence of any meaning, as stated, the meaning given to it in another Law, unless it contradicts the relevant provision or its contents.

2. **Public Company**

The Company is a public company.

3. **The Purpose of the Company**

The purpose of the Company is to operate in accordance with business considerations to generate profits; provided, however, the Board of Directors is entitled to donate reasonable amounts to worthy causes, even if such a donation is not within the framework of business considerations, as stated.

4. **The Objectives of the Company**

The Company shall engage in any legal business.

5. **Limited Liability**

The liability of the Shareholders of the Company is limited, each one up to the par value of the Shares allotted to him which remains unpaid, and only to that amount. In any event, if the Company's share capital shall include at any time Shares without a nominal value, the Shareholders' liability in respect of such Shares shall be limited to the payment of up to NIS 0.01 for each such Share allotted to them and which remains unpaid, and only to that amount.

Chapter Two - The Share Capital of the Company

6. Share Capital

- 6.1. The authorized share capital of the Company is NIS 2,350,000, divided into 235,000,000 ordinary shares at a par value of NIS 0.01 each (hereinafter: the “**Ordinary Shares**”).
- 6.2. Each Ordinary Share shall confer upon its holder the right to receive notices of, and to attend and vote in, general meetings, and to one vote for each Ordinary Share held by him.
- 6.3. Each class of Shares shall also confer equal rights to each holder in the class with respect to the amounts of equity which were paid or credited as paid with respect to their par value, in all matters pertaining to dividends, the distribution of bonus shares and any other distribution, return of capital and participation in the distribution of the balance of the assets of the Company upon liquidation.
- 6.4. The provisions of these Articles of Association with respect to Shares, shall also apply to other Securities issued by the Company, mutatis mutandis.

7. The Issuance of Shares and Other Securities

- 7.1. The Board of Directors of the Company may issue Shares and other equity Securities of the Company, up to the limit of the registered share capital of the Company. In the event that the share capital of the Company includes several classes of Shares and other equity Securities, no shares and other equity Securities shall be issued above the limit of the registered share capital for its class.
- 7.2. The Board of Directors of the Company may issue redeemable Securities, having such rights and subject to such conditions as will be determined by the Board of Directors.
- 7.3. Subject to the provisions of these Articles of Association, the Board of Directors may allot Shares and other Securities according to such stipulations and conditions, at par value or by way of a premium, as it deems fit.
- 7.4. The Board of Directors may decide on the issuance of a series of bonds or other debt securities within the framework of its authority or to take a loan on behalf of the Company and within the limits of the same authority.
- 7.5. The Shareholders of the Company at any given time shall not have any preemption right or priority or any other right whatsoever with respect to the acquisition of Securities of the Company. The Board of Directors, in its sole discretion, may decide to offer Securities of the Company first to existing Shareholders or to any one or more of them.
- 7.6. The Company is entitled to pay a commission (including underwriting fees) to any person, in consideration for underwriting services, or the marketing or distribution of Securities of the Company, whether reserved or unreserved, as determined by the Board of Directors. Payments, as stated in this Article, may be paid in cash or in Securities of the Company, or partly in one manner and partly in another manner.

8. **Calls of Payment**

- 8.1. In the event that according to the terms of a Share allotment, there is no fixed date for the payment of any part of the price that is to be paid for the Shares, the Board of Directors may issue from time to time calls of payment to the Shareholders with respect to the moneys which were not yet paid by them in relation to the Shares (hereinafter: “**Calls of Payment**” or a “**Call of Payment**”, as the case may be).
- 8.2. A Call of Payment shall set a date, which will not be earlier than thirty days from the date of the notice, by which the amount indicated in the Call of Payment must be paid, together with interest, Linkage and expenses incurred in consequence of the non-payment, according to the rates and amounts set by the Board of Directors. The notice shall further specify that in the event of a failure to pay within the date fixed, the Shares in respect of which payment or the rate is required may be forfeited. In the event that a Shareholder fails to meet any of its obligations, under a Call of Payment, the Share in respect of which said notice was issued pursuant to the resolution of the Board of Directors may be forfeited at any time thereafter. The forfeiture of Shares shall include the forfeiture of all the dividends on same Shares which were not paid prior to the forfeiture, even if such dividends were declared.
- 8.3. Any amount, which according to the terms of a Share allotment, must be paid at the time of issuance or at a fixed date, whether at the par value of the Share or at a premium, shall be deemed for the purposes of these Articles of Association to be combined in a duly issued Call of Payment. In the event of non-payment of any such amount, all the provisions of these Articles of Association shall apply with respect to such an amount, as if a proper Call of Payment has been made and an appropriate notice thereof was given.
- 8.4. The Board of Directors, acting reasonably and in good faith, may differentiate among Shareholders with respect to amounts of Calls of Payment and/or their payment time.
- 8.5. The joint holders of Shares shall be liable, jointly and severally, for the payment of Calls of Payment in respect of such Shares.
- 8.6. Any payment for Shares shall be credited, pro rata, according to the par value of and according to the premium on such Shares.
- 8.7. A Call of Payment may be cancelled or deferred to another date, as may be decided by the Board of Directors. The Board of Directors may waive any interest, Linkage and expenses or any part of them.

- 8.8. The Board of Directors may receive from a Shareholder any payments for his Shares, in addition to the amount of any Call of Payment, and the Board of Directors may pay to the same Shareholder interest on amounts which were paid in advance, as stated above, or on same part of them, in excess of the amount of the Call of Payment, or to make any other arrangement with him which may compensate him for the advancement of the payment.
- 8.9. A Shareholder shall not be entitled to a dividend or to his other rights as a Shareholder, unless he has fully paid the amounts specified in the Calls of Payment issued to him, together with interest, Linkage and expenses, if any, unless otherwise determined by the Board of Directors.
- 8.10. The Board of Directors is entitled to sell, re-allot or transfer in any other manner any Share which was forfeited, in the manner it decides, with or without any amount paid on the Share or deemed as paid on it.
- 8.11. The Board of Directors is entitled at all times prior to the sale, reallocation or transfer of the forfeited Share to cancel the forfeiture on the conditions it may decide.
- 8.12. A person whose Shares have been forfeited shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which, up until the date of forfeiture, were due and payable by him to the Company in respect of the Shares, including interest, Linkage and expenses up until the actual payment date in the same manner as if the Shares were not forfeited, and shall be compelled to fulfill all the requirements and claims which the Company was entitled to enforce with respect to the Shares up until the forfeiture date, without any decrease or discount for the value of the Shares at the time of forfeiture. His liability shall cease only if and when the Company receives the full payment set at the time of allotment of the Shares.
- 8.13. The Board of Directors may collect any Calls of Payment which were not paid on the forfeited Shares or any part of them, as it deems fit, but it is not obligated to do so.
- 8.14. The forfeiture of a Share shall cause, as of the time of forfeiture, the cancellation of all rights in the Company and of any claim or demand against the Company with respect to that Share, and of other rights and obligations of the Shareholder in respect of the Company, save as otherwise provided by Law.
9. **The Shareholder Registers of the Company and the Issuance of Share Certificates**
- 9.1. The Company shall maintain a Shareholder Register and a Register of Significant Shareholders, together with a notation of any Exceptional Holdings in accordance with the provisions set forth in Article 10A below, to be administered by the corporate secretary of the Company, subject to the oversight of the Board of Directors.

- 9.2. A Shareholder registered in the Shareholders Register is entitled to receive from the Company, free of charge, within two months after an allotment or the registration of a transfer (unless the conditions of the allotment fix a different period) one or several certificates with respect to all the Shares of a certain class registered in his favor, which certificate must specify the number of the Shares, the class of the Shares and the amount paid for them and also any other detail deemed important by the Board of Directors. In the event a Share is held jointly, the Company shall not be obligated to issue more than one certificate for all the joint holders, and the delivery of such a certificate to any of the joint holders shall be viewed as if it was delivered to all of them.
- 9.3. Each and every Share certificate shall be stamped with the seal or the stamp of the Company or bear the Company's printed name, and shall also bear the signature of one Director and of the corporate secretary of the Company, or of two Directors or of any other person appointed by the Board of Directors for this purpose.
- 9.4. The Company is entitled to issue a new Share certificate in place of an issued Share certificate which was lost or spoiled or corrupted, following evidence thereto and guarantees and indemnities, as may be required by the Company and the payment of an amount determined by the Board of Directors.
- 9.5. Where two people or more are registered as joint holders of Shares, each of them is entitled to acknowledge the receipt of a dividend or other payments in connection with such jointly held Shares, and such acknowledgement of any one of them shall be good discharge of the Company's obligation to pay such dividend or other payments.

10. **Transfer of Shares**

- 10.1. The Shares are transferable. The transfer of Shares shall not be registered unless the Company receives a deed of transfer (hereinafter: "**Deed of Transfer**") or other proper Document or instrument of transfer. A Deed of Transfer shall be drawn up in the following manner or in any substantially similar manner or in any other manner approved by the Board of Directors.

Deed of Transfer

I, _____, (hereinafter: "The Transferor") of _____, do hereby transfer to _____ (hereinafter: "The Transferee") of _____, for valuable consideration paid to me, _____ Share(s) having a par value of NIS 0.01 each, numbered _____ to _____ (inclusive), of Partner Communications Company Ltd. (hereinafter: the "Company") to hold unto the Transferee, his executors, administrators and assigns, subject to the same terms and conditions on which I held the same at the time of the execution hereof; and I, the said Transferee, do hereby agree to take the said Share(s) subject to the aforesaid terms and conditions.

In witness whereof we have hereunto set our hands this _____ day of _____, _____.

The Transferor
Name: _____
Signature: _____

The Transferee
Name: _____
Signature: _____

Witness to the Signature of:

The Transferor
Name: _____
Signature: _____

The Transferee
Name: _____
Signature: _____

- 10.2. The transfer of Shares which are not fully paid, or Shares on which the Company has a lien or pledge, shall have no validity unless approved by the Board of Directors, which may, in its absolute discretion and without giving any reasoning thereto, decline the registration of such a transfer. The Board of Directors may deny a transfer of Shares as aforesaid and may also impose as a condition on the transfer of Shares as aforesaid an undertaking by the transferee to meet the obligations of the transferor with respect to the Shares or the obligations for which the Company has a lien or pledge on the Shares, signed by the transferee together with the signature of a witness, authenticating the signature of the transferee.
- 10.3. The transfer of a fraction of a Share shall lack validity.
- 10.4. A transferor of Shares shall continue to be regarded as the holder of the transferred Shares, until the name of the transferee of the Shares is registered in the Shareholder Register of the Company.
- 10.5. A Deed of Transfer shall be filed with the Company's office for registration, together with the Share Certificates for the Shares which are to be transferred (if such are issued) and also any other evidence which the Company may require with respect to the proprietary right of the transferor or with respect to his right to transfer the Shares. Deeds of Transfer which are registered shall remain with the Company. The Company is not obligated to retain the Deeds of Transfer and the Share Certificates, which may be cancelled, after the completion of a seven-year period from the registration of the transfer.
- 10.6. A joint Shareholder may transfer his right in a Share. In the event the transferring Shareholder does not hold the relevant Share Certificate, the transferor shall not be obligated to attach the Share Certificate to the Deed of Transfer, so long as the Deed of Transfer shall indicate that the transferor does not hold the Share Certificate, that the right he has in the Shares therein is being transferred, and that the transferred Share is held jointly with others, together with their details.
- 10.7. The Company may require payment of a fee for the registration of the transfer, at an amount or a rate determined by the Board of Directors from time to time.

- 10.8. The Board of Directors may close the Shareholder Register for a period of up to thirty days in each calendar year.
- 10.9. Subject to Article 10.10, upon the death of a Shareholder registered in the Shareholders Register, the Company shall recognize the custodians or administrators of the estate or executors of the will, and in the absence of such, the lawful heirs of such Shareholder, as the only holders of the right for the Shares of the deceased Shareholder, after receipt of evidence to the entitlement thereto, as determined by the Board of Directors.
- 10.10. In the event that a deceased Shareholder registered in the Shareholders Register held Shares jointly with others, the Company shall acknowledge each survivor as a joint Shareholder with respect to said Shares, unless all the joint holders in the Share notify the Company in writing, prior to the death of any of them, of their will that the provisions of this Article shall not apply to them. The foregoing shall not release the estate of such joint Shareholder of any obligation in relation to a Share which is held jointly.
- 10.11. A person acquiring a right in Shares in consequence of being a custodian, administrator of the estate, the heir of a Shareholder registered in the Shareholders Register, a receiver, liquidator or a trustee in a bankruptcy of a Shareholder registered in the Shareholders Register or according to another provision of the Law, is entitled, after providing evidence to his right, to the satisfaction of the Board of Directors, to be registered as the Shareholder or to transfer such Shares to another person, subject to the provisions of these Articles of Association with respect to transfers.
- 10.12. A person becoming entitled to a Share because of the death of a Shareholder registered in the Shareholders Register shall be entitled to receive, and to give receipts for, dividends or other payments paid or distributions made, with respect to the Share, but shall not be entitled to receive notices with respect to General Meetings of the Company or to participate or vote therein with respect to that Share, or to exercise any other right of such Shareholder, until he has been registered in the Shareholder Register as the holder of that Share.
- 10.13. Intentionally Deleted

10A. **Limitations on Transfer of Shares**

- 10A.1. Exceptional Holdings shall be registered in the Register of Members (Shareholder Register) together with a notation that such holdings have been classified as "Exceptional Holdings", immediately upon the Company's learning of such matter. Notice of such registration shall be sent by the Company to the registered holder of the Exceptional Holding and to the Minister of Communications.
- 10A.2. Exceptional Holdings, registered in the manner set forth in Article 10A.1, shall not entitle the holder to any rights in respect to his holdings, and such holdings shall be considered "Dormant Shares" within the meaning of Section 308 of the Companies Law, except, however, that the holder of such shares shall be entitled to receive dividends and other distributions to shareholders (including the right to participate in a rights offering calculated on the basis of Means of Control of the Company (as defined in the License), provided, however, that such additional holdings shall be considered Exceptional Holdings). Therefore, any action taken or claim made on the basis of a right deriving from an Exceptional Holdings shall have no effect, except for the receipt of dividends or other distribution as stated above.

Without derogating from the above:

- 10A.2.1 A Shareholder participating in a vote of the General Meeting will certify to the Company prior to the vote or, if the vote is by Deed of Vote, on the Deed of Vote, as to whether or not his holdings in the Company or his vote require consent pursuant to Sections 21 and 23 to the License; in the event the shareholder does not provide notification as aforesaid, he shall not vote and his vote shall not be counted.
- 10A.2.2 No Director shall be appointed, elected or removed on the basis of Exceptional Holdings. In the event a Director is appointed, elected or removed from his position as a Director as set forth above, such appointment, election or removal shall have no effect.
- 10A.2.3 Exceptional Holdings shall have no voting rights at a General Meeting of the Company.

For the purposes of this Article 10A, "**Exceptional Holdings**" means the holdings of Traded Means of Control held without the consent of the Minister of Communications pursuant to Section 21 to the License or as a result of a breach of the provisions of Section 23 to the License, and all holdings of a holder of Traded Means of Control who acted contrary to the provisions of Section 24 to the License; and as long as the consent of the Minister of Communications is required but has not been obtained pursuant to Section 21 to the License, or the circumstances exist which constitute a violation of the provisions of Sections 23 or 24 to the License.

For the purposes of this Article 10A, "**Traded Means of Control**" means Means of Control (as defined in the License) including Global or American Depositary Shares (GDRs or ADRs) or similar certificates, registered for trade on a securities exchange in Israel or abroad or which have been offered to the public in connection with a prospectus, and are held by the public in Israel or abroad.

- 10A.3. The provisions of Article 10A shall not apply to those who were Shareholders of the Company on the eve of the first registration of the Company's Shares for trade.

10B. **Required Minimum Holdings**

- 10B.1. Our License requires that Founding Shareholders hold Shares constituting at least the Minimum Founding Shareholders Holding and that Founding Israeli Shareholders hold Shares constituting at least the Minimum Israeli Holding.
- 10B.2. Shares held by Founding Shareholders, to the extent such Shares constitute all or a portion of the Minimum Founding Shareholders Holding, shall be registered directly in the name of the Founding Shareholder in the shareholder register of the Company, with a note indicating that such Shares are "Minimum Founding Shareholders Shares." Minimum Founding Shareholders Shares that are held by Founding Israeli Shareholders, to the extent such Shares constitute all or a portion of the Minimum Israeli Holding, shall also be recorded in the shareholder register with a note indicating that such Shares are "Minimum Israeli Holding Shares".
- 10B.3. No transfer by a Founding Shareholder of Minimum Founding Shareholder Shares or by a Founding Israeli Shareholder of Minimum Israeli Holding Shares shall be recorded in the Company's shareholder register, or have any effect, unless the Company's Secretary shall have received written confirmation from the Ministry of Communications that the transfer complies with section 21.8 of the License. The Company Secretary may, in his or her discretion, refer any question in connection with the recording of Minimum Founding Shareholders Shares or Minimum Israeli Holding Shares, or their transfer, to the Company's audit committee whose decision shall be binding on the Company. As a condition to any transfer of Minimum Founding Shareholders Shares or Minimum Israeli Holding Shares, the transferee shall be required to deliver to the Company's Secretary (a) a share transfer deed that includes an undertaking by the transferee to comply with all requirements of section 22A of the License and (b) all information requested with respect to the transferee's qualification as a Founding Shareholder and/or a Founding Israeli Shareholder.

11. **Bearer Share Certificate**

The Company shall not issue bearer Share Certificates which grant the bearer rights in the Shares specified therein.

12. **Pledge of Shares**

- 12.1. The Company shall have a first degree pledge on, and a right to create a lien on, all Shares which are not fully paid and registered in the name of any Shareholder, and the proceeds of their sale, with respect to moneys (which payment time is due or not) whose payment was already called or are to be paid up within a fixed time. Furthermore, the Company shall have a first degree pledge right on all the Shares (other than Shares which were fully paid) registered in the name of any Shareholder to secure the payment of moneys which are due from him or from his property, whether with respect to his own debts or debts jointly with others. The said pledge shall also apply to dividends, declared from time to time, with respect to these Shares.

- 12.2. For purposes of the realization of any such pledge and or lien, the Board of Directors is entitled to sell the Shares which are the subject of the pledge or lien, or any part of them, as it deems fit. No sale, as aforesaid, shall be carried out, until the date fixed for the payment has passed and a notice in writing was transferred to same Shareholder with respect to the intention of the Company to sell them, on condition that the amounts were not paid within fourteen days after the notice.
- 12.3. The proceeds of any such sale, after deduction for the payment of the sale expenses, shall serve for the covering of the debts or obligations of said Shareholder, and the balance (if any) shall be paid to him.
- 12.4. In the event that a sale of Shares was carried out pursuant to the realization of a pledge or a lien, pursuant to the presumptive authority conferred above, the Board of Directors is entitled to register such Shares in the Shareholder Register in favor of the buyer, and the buyer shall not be under the obligation to examine the fitness of such actions or the manner in which the purchase price paid for such Shares was used. After the said Shares are registered in the Shareholder Register in favor of the buyer, no person shall have the right to object to the validity of the sale.

13. **Changes in the Share Capital**

The General Meeting is entitled to take any of the following actions at all times, so long as the resolution of the General Meeting is adopted by a Special Majority.

13.1. Increasing the Share Capital

To increase the share capital of the Company, regardless of whether all the Shares registered at such a time were issued or not. The increased share capital shall be divided into Shares having ordinary rights or preference rights or deferred rights or other special rights (subject to the special rights of an existing class of Shares) or subject to conditions and restrictions with respect to entitlement to dividend, return of capital, voting or other conditions, as may be instructed by the General Meeting in a resolution with respect to the increase of the share capital, and in the absence of a special provision, according to the terms determined by the Board of Directors.

13.2. Classes of Shares

To divide the share capital of the Company into various classes of Shares, and to set and change the rights attaching to each class of Shares, according to the conditions specified below:

- 13.2.1. So long as it was not otherwise set in the Share allotment conditions, the rights of any class may be changed pursuant to a resolution of the General Meeting of the Shareholders of each class of Shares, separately, or upon the written consent of all the Shareholders of all classes.

13.2.2. The rights conferred on the holders of Shares of a certain class shall not be deemed to have been changed as a result of the creation or allotment of other Shares having identical rights, unless it was otherwise stipulated in the allotment conditions of said Shares.

13.3. Amalgamation and Redivision of the Share Capital

To amalgamate and redivide the share capital of the Company, entirely or partially, into Shares having a higher or lesser par value than that stated in these Articles of Association. In the event that in consequence of such amalgamation, there are Shareholders left with fractions of Shares, the Board of Directors if approved by the Shareholders at a General Meeting in adopting the resolution for amalgamation of the capital, may agree as follows:

13.3.1. To sell the total of all the fractional shares and to appoint a trustee for this purpose, in whose name Share Certificates representing the fractions shall be issued, who will sell them, with the proceeds received after the deduction of commissions and expenses to be distributed to those entitled. The Board of Directors shall be entitled to decide that Shareholders who are entitled to proceeds which are below an amount determined by it, shall not receive the proceeds of the sale of the fractional shares, and their share in the proceeds shall be distributed among the Shareholders who are entitled to proceeds, in an amount greater than the amount that was determined, relative to the proceeds to which they are entitled;

13.3.2. To allot to any Shareholder, who is left with a fractional Share following the amalgamation, Shares of the class of Shares prior to the amalgamation, which are fully paid, in such a number, the amalgamation of which together with the fractional Share shall complete a whole Share, and an allotment as stated shall be viewed as valid shortly before the amalgamation;

13.3.3. To determine that Shareholders shall not be entitled to receive a Share in exchange for a fractional Share resulting from the amalgamation of a half or smaller fraction of the number of Shares, whose amalgamation creates a single Share, and they shall be entitled to receive a whole Share in exchange for a fractional Share, resulting from the amalgamation of more than a half of the number of Shares, whose amalgamation creates a whole Share.

In the event that an action pursuant to Articles 13.3.2 or 13.3.3 above requires the allotment of additional Shares, their payment shall be effected in a manner similar to that applicable to the payment of Bonus Shares. An amalgamation and redivision, as aforesaid, shall not be regarded as a change in the rights attaching to the Shares which are the subject of the amalgamation and redivision.

13.4. Cancellation of Unissued Share Capital

To cancel registered share capital which has not yet been allotted, so long as the Company is not under an obligation to allot these Shares.

13.5. The Division of the Share Capital

To divide the share capital of the Company, entirely or partially, into Shares having a lower par value than those stated in these Articles of Association, by way of dividing the Shares of the Company at such a time, entirely or partially.

13.6. The provisions specified in this Article 13 shall also apply to other equity Securities of the Company, mutatis mutandis.

Chapter Three - General Meetings

14. **The Authority of the General Meeting**

14.1. Subjects within the authority of the General Meeting

The following matters shall require the approval of the General Meeting:

14.1.1. Changes in the Articles of Association, if adopted by a Special Majority.

14.1.2. The exercise of the authority of the Board of Directors, if resolved by a Special Majority that the Board of Directors is incapable of exercising its authority, and that the exercise of any of its authority is essential to the orderly management of the Company.

14.1.3. The appointment or reappointment of the Company's auditor, the termination or non-renewal of his service, and to the extent required by Law and not delegated to the Board of Directors, the determination of his fee.

14.1.4. The appointment of Directors, including external Directors.

14.1.5. To the extent required by the provisions of Section 255 of the Companies Law, the approval of actions and transactions with interested parties and also the approval of an action or a transaction of an Office Holder which might constitute a breach of the duty of loyalty.

14.1.6. Changes in the share capital of the Company, if adopted by a Special Majority as set forth in Article 13 above.

- 14.1.7. A merger of the Company, as defined in the Companies Law.
- 14.1.8. Changes in the objectives of the Company as set forth in Article 4 above, if adopted by a Special Majority.
- 14.1.9. Changes in the name of the Company, if adopted by a Special Majority.
- 14.1.10. Liquidation, if adopted by a Special Majority.
- 14.1.11. Settlements or Arrangements pursuant to Section 350 of the Companies Law.
- 14.1.12. Any other matters which applicable Law requires to be dealt with at General Meetings of the Company.

- 14.2. The authority of the General Meeting to transfer authorities between corporate organs.

The General Meeting, by a Special Majority, may assume the authority which is given to another corporate organ, and may transfer the authority which is given to the General Manager to the Board of Directors.

The taking or transferring of authorities, as aforesaid, shall be with regard to a specific issue or for a specific period of time not exceeding the required period of time under the circumstances, all as stated in the resolution of the General Meeting.

15. **Kinds of General Meetings**

15.1. Annual Meetings

A General Meeting shall be convened at least once a year, within fifteen months of the last general meeting. The meeting shall be held at the registered offices of the Company, unless otherwise determined by the Board of Directors. These General Meetings shall be referred to as "Annual Meetings".

- 15.1.1. An Annual Meeting shall be convened to discuss the following:

- (One) The Financial Statements and the Report of the Board of Directors, as of December 31st of the calendar year preceding the year of the annual meeting.
- (Two) The Report of the Board of Directors with respect to the fee paid to the Company's auditor.

15.1.2. The Annual Meeting shall be convened to also adopt resolutions on the following matters:

(One) The appointment of Directors and the termination of their office in accordance with Article 23 below.

(Two) The appointment of an auditor or the renewal of his office, subject to the provisions of Article 29 below.

15.1.3. The Annual Meeting may discuss, and decide upon, any additional matter on the agenda of such meeting.

15.2. Extraordinary Meetings

General Meetings of the Shareholders of the Company which are not convened in accordance with the provisions of Article 15.1 above, shall be referred to as "Extraordinary Meetings". An Extraordinary Meeting shall discuss, and decide upon, any matter (other than those referred to in Article 15.1.1 or 15.1.2), for which the Extraordinary Meeting was convened.

15.3. Class Meetings

The provisions of these Articles of Association with respect to General Meetings shall apply, mutatis mutandis, to meetings of a class of Shareholders of the Company.

16. **The Holding of General Meetings**

16.1. The Convening of the Annual Meeting

The Board of Directors shall convene Annual Meetings in accordance with the provisions of Article 15.1 above.

16.2. The Convening of an Extraordinary Meeting

The Board of Directors may convene an Extraordinary Meeting, as it decides, provided, however, that it shall be obligated to convene an Extraordinary Meeting upon the demand of one of the following:

16.2.1. Any two Directors or a quarter of the Directors, whichever is lower; or

16.2.2. any one or more Shareholders, holding alone or together (i) at least 5% of the issued share capital of the Company and at least 1% of the voting rights of the Company; or (ii) at least 5% of the voting right of the Company.

16.3. Date of Convening an Extraordinary Meeting Upon Demand

The Board of Directors, which is required to convene a general meeting in accordance with Article 16.2 above shall announce the convening of the General Meeting within twenty-one (21) days from the receipt of a demand in that respect, and the date fixed for the meeting shall not be more than thirty-five (35) days from the publication date of the announcement of the General Meeting.

In the event that the Board of Directors shall not have convened an Extraordinary Meeting, as required in this Article, those demanding its convening or half of the Shareholders which demand it subject to Article 16.2.2, are entitled to convene the meeting themselves, so long as it is convened within three months from the date on which the demand was filed, and it shall be convened, inasmuch as possible, in the same manner by which meetings are convened by the Board of Directors. In the event that a General Meeting is convened as aforesaid, the Company shall bear the reasonable costs and expenses incurred by those demanding it.

16.4. Notice of Convening a General Meeting

Notice of a General Meeting shall be sent to each registered Shareholder in the Shareholders Register of the Company as of the Record Date set by the Board of Directors for that meeting, no later than five (5) days after that Record Date, unless a different notice time is required by Law and cannot be altered or waived in the Company's Articles of Association.

A General Meeting may be convened following a shorter notice period, if the written consent of all the Shareholders who are entitled at such time to receive notices has been obtained. A waiver by a Shareholder can also be made in writing after the fact and even after the convening of the General Meeting.

16.5. Contents of the Notice

Subject to the provisions of any Law, a notice with respect to a general meeting shall specify the agenda of the meeting, the location, the proposed resolutions and also the arrangements for voting by means of a Deed of Vote or a Deed of Authorization, and the requirements of Article 10A.2.1.

Any notice to be sent to the Shareholders registered in the Shareholders Register shall also include a draft of the proposed resolutions or a concise description of their particulars.

17. **The Agenda of General Meetings**

17.1. The agenda of the General Meeting shall be determined by the Board of Directors and shall also include issues for which an Extraordinary Meeting is being convened in accordance with Article 15.2 above, or demanded in accordance with Article 17.2 below.

17.2. One or more Shareholders holding alone or in the aggregate, one percent or more of the share capital of the Company may request that the Board of Directors include an issue on the agenda of a general meeting to be convened in the future. The Board of Directors shall incorporate such issue on the agenda of such a future general meeting, provided that the Board of Directors determines, in its discretion, such issue is suitable to be discussed in the General Meeting of the Company.

17.3. The General Meeting shall only adopt resolutions on issues which are on its agenda.

17.4. So long as it is not otherwise prescribed by Law, the General Meeting is entitled to accept or reject a proposed resolution which is on the agenda of the General Meeting, the draft or concise description of the particulars of which were published by the Company, including slight alterations, however, it is not entitled to take a resolution, which is materially different than the proposed resolution, unless permitted under applicable Law.

18. **Discussions in General Meetings**

18.1. Quorum

No discussion shall be held in the General Meeting unless a lawful quorum is present. Subject to the requirements of the applicable Law in force at the time these Articles of Association come into force, the Nasdaq Corporate Governance Rules and any other exchange on which the Company's securities are or may become quoted or listed, and the provisions of these Articles, any two Shareholders, present by themselves or by means of a proxy, or who have delivered to the Company a Deed of Voting indicating their manner of voting, and who hold or represent at least one-third of the voting rights in the Company shall constitute a lawful quorum. A Shareholder or his proxy, who may also serve as a proxy for other Shareholders, shall be regarded as two Shareholders or more, in accordance with the number of Shareholders he is representing.

18.2. Deferral of the General Meeting in the Absence of Lawful Quorum

In the event that a legal quorum is not present after the lapsing of 30 minutes from the time specified in the convening notice for the commencement of the meeting, the meeting may be adjourned to the same day of the following week (or the first business day thereafter) at the same time and venue, or to another time and venue, as determined by the Board of Directors in a notice to the Shareholders, and the adjourned meeting shall discuss the same issues for which the original meeting was convened. If at the adjourned meeting, a legal quorum is not present after the lapsing of 30 minutes from the time specified for the commencement of the meeting, then and in such event one or more Shareholders holding or representing in the aggregate at least 10% of the voting rights in the Company, shall be deemed to form a proper quorum, except as specified in Section 79(b) of the Companies Law.

18.3. The Chairman of the General Meeting

The chairman of the Board of Directors (if appointed) shall preside at each General Meeting. In the absence of the chairman, or if he fails to appear at the meeting within 15 minutes after the time fixed for the meeting, the Shareholders present at the meeting shall choose any one of the Directors of the Company as the chairman, and if there is no Director present at the meeting, one of the Shareholders shall be chosen to preside over the meeting. The chairman shall not have an additional vote or casting vote.

18.4. Adjourned Meeting

18.4.1. Upon adoption of a resolution at a General Meeting at which a lawful quorum is present, the chairman may, and upon demand of the General Meeting shall, adjourn the General Meeting, the discussion or the adoption of a resolution on an issue detailed on the Agenda, from time to time and from venue to venue, as the meeting may decide (for the purpose of this Article: an “Adjourned Meeting”).

18.4.2. In the event that a meeting is adjourned for more than twenty one days, a notice of the Adjourned Meeting shall be given in the same manner as the notice of the original meeting. With the exception of the aforesaid, a Shareholder shall not be entitled to receive notice of an Adjourned Meeting or of the issues which are to be discussed in the Adjourned Meeting. The Adjourned Meeting shall only discuss issues that were on the Agenda of the General Meeting which was adjourned with respect to which no resolution was adopted. The provisions of Articles 17.1, 17.2 and 17.3 of the Articles of Association shall apply to an Adjourned Meeting.

19. **Voting of the Shareholders**

19.1. Resolutions

In any General Meeting, a proposed resolution shall be adopted if it receives an Ordinary Majority, or any other majority of votes set by Law or in accordance with these Articles of Association. For the avoidance of doubt, any proposed resolution requiring a Special Majority under the Companies Ordinance shall continue to require the same Special Majority even after the effective date of the Companies Law.

In the event of a tie vote, the resolution shall be deemed rejected.

19.2. Checking Majority

19.2.1. The checking of the majority shall be carried out by means of a count of votes, at which each Shareholder shall be entitled to vote in each case in accordance with rights fixed for such Shares, subject to Articles 10A above and Article 44 below. A Shareholder shall be entitled to a single vote for each share he holds which is fully paid or that Calls of Payment in respect of which was fully paid.

19.2.2. The announcement of the chairman that a resolution in the General Meeting was adopted or rejected, whether unanimously or with a specific majority, shall be regarded as prima facie evidence thereof.

19.3. Written Resolutions

Subject to the provisions of applicable Law, a written resolution signed by all of the Shareholders of the Company holding Shares which entitle their holders to participate in General Meetings of the Company and vote therein, or of the same class of Shares to which the resolution refers, as the case may be, shall be regarded as a valid resolution for all purposes, and as a resolution adopted at a General Meeting of the Company or at a class meeting of the relevant class of Shares, as the case may be, which was properly summoned and convened, for the purpose of adopting such a resolution.

Such a resolution could be stated in several copies of the same document, each of them signed by one Shareholder or by several Shareholders.

19.4. Record Date For Participation and Voting

The Record Date shall be set by the Board of Directors, or by a person or persons authorized by the Board of Directors, in accordance with applicable Law.

19.5. A Right to Participate and Vote

A Shareholder shall not be entitled to participate and vote in any General Meeting or to be counted among those present, so long as (i) he owes the Company a payment which was called for the Shares held by him, unless the allotment conditions of the Shares provide otherwise, and/or (ii) his holdings are registered in the Shareholder Register together with a notation that such holdings have been classified as Exceptional Holdings, as defined in Article 10A or Affected Shares, as defined in Article 44.

19.6. Personal Interest in Resolutions

A Shareholder seeking to vote with respect to a resolution which requires that the majority for its adoption include at least a specified majority of the votes of all those not having a personal interest (as defined in the Companies Law) in the resolution shall notify the registered office of the Company at least seventy two hours prior to the time of the General Meeting, whether he has a personal interest in the resolution or not, as a condition for his right to vote and be counted with respect to such resolution.

A Shareholder voting on a resolution, as aforesaid, by means of a Deed of Vote, may include his notice with regard to his personal interest on the Deed of Vote.

19.7. The Disqualification of Deeds of Vote and Deed of Authorization

Subject to the provisions of applicable Law, the corporate secretary of the Company may, in his discretion, disqualify Deeds of Vote and Deeds of Authorization and so notify the Shareholder registered in the Shareholders Register who submitted a Deed of Vote or Deeds of Authorization in the following cases:

- 19.7.1. If there is a reasonable suspicion that they are forged;
- 19.7.2. If there is a reasonable suspicion that they are falsified, or given with respect to Shares for which one or more Deeds of Vote or Deeds of Authorization have been given and not withdrawn; or
- 19.7.3. If there is no note on the Deed of Vote or Deed of Authorization as to whether or not his holding in the Company or his vote require the consent of the Minister of Communications pursuant to Sections 21 and 23 to the License.
- 19.7.4. With respect to Deeds of Vote:
 - (One) If more than one choice is marked for the same resolution; or
 - (Two) With respect to resolutions which require that the majority for their adoption includes a specified majority of the votes of those not having a personal interest in the approval of the resolution, where it was not marked whether the relevant Shareholder has a personal interest or not, as aforesaid.

Any Shareholder registered in the Shareholders Register shall be entitled to appeal on any such disqualification to the Board of Directors at least one business day prior to the relevant General Meeting.

19.8. The Voting of a Person without Legal Capacity

A person without legal capacity is entitled to vote only by means of a trustee or a legal custodian.

19.9. The Voting of Joint Holders of a Share

Where two or more Shareholders registered in the Shareholders Register are registered joint holders of a Share, only the first named joint holder shall vote, without taking into account the other registered joint holders of the Share. For this purpose, the first named joint holder shall be the person whose name is registered first in the Shareholder Register.

19.10. Minutes of the General Meeting

The chairman of the General Meeting shall cause that the minutes of each General Meeting shall be properly maintained and shall include the following:

19.10.1. The name of each Shareholder registered in the Shareholders Register present in person, by Deed of Vote or by proxy and the number of Shares held or represented by him;

19.10.2. The principal issues of the discussion, all the resolutions which were adopted or rejected at the General Meeting, and if adopted - according to what majority.

20. **The Appointment of a Proxy**

20.1. Voting by Means of a Proxy

A Shareholder registered in the Shareholder Register is entitled to appoint by deed of authorization ("**Deed of Authorization**") a proxy to participate and vote in his stead, whether at a certain General Meeting or generally at General Meetings of the Company, whether personally or by means of a Deed of Vote, so long as the Deed of Authorization with respect to the appointment of the proxy was delivered to the Company at least seventy two hours prior to the time of the General Meeting.

In the event that the Deed of Authorization is not limited to a certain General Meeting, then the Deed of Authorization, which was deposited prior to a certain General Meeting, shall also be good for other General Meetings thereafter. This Article 20 shall also apply to a Shareholder which is a corporation, appointing a person to participate and vote in a General Meeting in its stead. A proxy is not required to be a Shareholder of the Company.

20.2. The Draft of the Deed of Authorization

The Deed of Authorization shall be signed by the Shareholder and shall be in or substantially in the form specified below or any such other form acceptable to the Board of Directors of the Company. The corporate secretary, in his discretion, may accept a Deed of Authorization differing from that set forth below provided the changes are immaterial.

Without limiting the generality of the foregoing, the Company may send to the Shareholders prior to any General Meeting, a form of Deed of Authorization (approved by the corporate secretary) enabling shareholders to authorize specified persons to vote on the issues on the Agenda of such Meeting in accordance with the shareholders' instructions.

The corporate secretary shall only accept either an original Deed of Authorization, or a copy of the Deed of Authorization which is certified as an original copy by a lawyer having an Israeli license or a notary.

Deed of Authorization

Date: _____
To: Partner Communications Company Ltd.
Attn.: Corporate Secretary

Re: [Annual/Extraordinary] General Meeting of the Company
to be Held On _____

I, the undersigned _____, Identification No. / Registration No. _____, of _____, being the registered holder of _____¹ Shares [Ordinary Shares having a par value of NIS 0.01, each], hereby authorize _____, Identification No. _____² and/or _____, Identification No. _____ and/or _____, Identification No. _____ to participate and vote in my stead and on my behalf at the referenced meeting and in any adjournment of the referenced meeting of the Company / at any General Meeting of the Company, until I shall otherwise notify you.

I declare and detail in the designated space below whether I have a Personal Interest³ in the pertinent resolution on the agenda: ⁴

Item No.	Subject of the Resolution	Yes ⁵	No

Regarding the pertinent resolutions, why do I have a "Personal Interest" in the resolution?

¹ A shareholder is entitled to give several Deeds of Authorization, each of which refers to a different quantity of Shares of the Company held by him, so long as he shall not give Deeds of Authorization with respect to an aggregate number of Shares exceeding the total number he holds.

² In the event that the proxy does not hold an Israeli Identification number, indicate a passport number, if any, and the name of the country which issued the passport.

³ The shareholder needs to provide details regarding the nature of the personal interest in the resolution, at the designated space after the table. "Personal Interest" is defined in Section 1 of the Companies Law as a person's personal interest in an act or a transaction of a company, including, without limitation, the personal interest of said person's relative and of another entity in which said person or said person's relative is an interested party, excluding a personal interest that stems from the fact of holding shares in the company, including, without limitation, a personal interest of a person voting by proxy which was given by another person, even if the other person does not have a personal interest, and a person voting on behalf of a person having a personal interest will be deemed as having a personal interest, whether the voting discretion is in the voter's hands or not.

⁴ If an X is not marked in either column, or if an X is marked in the "Yes" column for the pertinent item and the shareholder does not provide details, the authorization (and the vote thereunder) in respect of this item shall be disqualified.

⁵ The shareholder is required to provide details at the designated space below regarding the shareholder's "Personal Interest" (with respect to the pertinent items).

I declare the following⁶:

- ☐ I, the undersigned, hereby declare that either my holdings or my vote requires the consent of the Minister of Communications pursuant to Sections 21 (Transfer of Means of Control) or 23 (Prohibition of Cross-Ownership) of the Company's General License for the Provision of Mobile Radio Telephone Services using the Cellular Method in Israel dated April 7, 1998, as amended (the "**License**").
- ☐ I, the undersigned, hereby declare that neither my holdings nor my vote, require the consent of the Minister of Communications pursuant to Sections 21 (Transfer of Means of Control) or 23 (Prohibition of Cross-Ownership) of the License.

Signature

Date: _____

Name (print): _____
Title: _____

- 20.3. A vote in accordance with a Deed of Authorization shall be lawful even if prior to it, the appointer died or became incapacitated or bankrupt, or if it is a corporation – was liquidated, or if he cancelled the Deed of Authorization or transferred the Share in respect of which it was given, unless a notice in writing was received at the Office of the Company prior to the meeting with respect to the occurrence of such an event.

21. **Deed of Vote, Voting Via the Internet**

- 21.1. A Shareholder may vote in a General Meeting by means of a Deed of Vote (*ktav hatba'ah*) on any issue for which voting by Deed of Vote is required to be offered under applicable Law and on any other issue for which the Board of Directors has approved voting by Deed of Vote, either generally or specifically. The form of the Deed of Vote shall be set by the corporate secretary or any one so authorized by the Board of Directors and may include additional matters, as determined by the corporate secretary or such authorized person.

⁶ If an X is not marked in either box, or if an X is marked in both boxes, this Deed of Authorization shall be disqualified. In the event that the shareholder is an "Interested Party," as defined in the License, voting in a different manner with respect to each part of the shareholder's Ordinary Shares, a separate Deed of Authorization should be filed for each quantity of Ordinary Shares in respect of which the shareholder intends to vote differently.

21.2. The Board of Directors may authorize Shareholder voting in a General Meeting via the Internet, subject to any applicable Law.

Chapter Four - The Board of Directors

22. **The Authority of the Board of Directors**

22.1. The authority of the Board of Directors is as specified both in the Law and in the provisions of these Articles of Association.

22.2. Signature Authority and Powers of Attorney

22.2.1. The Board of Directors shall determine the person(s) with authority to sign for and on behalf of the Company with respect to various issues. The signature of such person(s), appointed from time to time by the Board of Directors, whether generally or for a specific issue, whether alone or together with others, or together with the seal or the stamp of the Company or its printed name, shall bind the Company, subject to the terms and conditions set by the Board of Directors.

22.2.2. The Board of Directors may set separate signature authorities with respect to different issues and different amounts.

The Board of Directors may, from time to time, authorize any person to be the representative of the Company with respect to those objectives and subject to those conditions and for that time period, as the Board of Directors deems fit. The Board of Directors may also grant any representative the authority to delegate any or all of the authorities, powers and discretion given to the Board of Directors.

22.3. The Registered Office of the Company

The Board of Directors shall fix the location of the registered office of the Company.

23. **The Appointment of Directors and the Termination of Their Office**

23.1. The Number of Directors

The number of Directors in the Company shall not be less than seven (7) or more than seventeen (17).

23.2. The Identity of a Director

23.2.1. A member of the Board of Directors may hold another position with the Company.

23.2.2. Intentionally Deleted

23.2.3. Without derogating from the other provisions of these Articles of Association, a member of the Board of Directors shall comply with the provisions of Article 45 below.

23.2.4. The Board of Directors shall include independent and/or external Directors required to comply with the applicable requirements of any Law, the Nasdaq Corporate Governance Rules and any other investment exchange on which the securities of the Company are or may become quoted or listed. The requirements of the Companies Law applicable to an external Director (*Dahatz*) shall prevail over the provisions of these Articles of Association to the extent these Articles of Associations are inconsistent with the Companies Law, and shall apply to the extent these Articles of Associations are silent.

23.2.5. At least 10% of the members of the Board of Directors of the Company shall be comprised of Qualified Israeli Directors. Notwithstanding the above, if the board is comprised of up to 14 members, one Qualified Israeli Director shall be sufficient, and if the board is comprised of between 15 and 24 members, two Qualified Israeli Directors shall be sufficient.

23.2.6. Notwithstanding any other provision of these Articles, a Qualified Israeli Director shall be appointed as a member of the Board of Directors, and may be removed from such office, only upon written notice to the Company's company secretary of his or her appointment or removal by Founding Israeli Shareholders in the following manner:

23.2.6.1. In the event of receipt of such notice signed by at least two of the Founding Israeli Shareholders who are the record holders of more than 50% of Minimum Israeli Holding Shares, the person proposed thereby shall be appointed or removed (as the case will be) as the Qualified Israeli Director (without a need for a further notice).

23.2.6.2. In the event that no notice signed by at least two of the Founding Israeli Shareholders who are the record holders of more than 50% of Minimum Israeli Holding Shares is so received, the Qualified Israeli Director shall be appointed by a notice signed by at least two of the Founding Israeli Shareholders, who hold in the aggregate the highest number of Minimum Israeli Holding Shares among the Founding Israeli Shareholders who sent such notices, as follows:

- 23.2.6.2.1 In the event that the Company so receives a notice proposing a person as a Qualified Israeli Director (the “**Proposed Director**”) signed by at least two of the Founding Israeli Shareholders who are not the record holders of more than 50% of Minimum Israeli Holding Shares, the Company shall send a notice (the “**Company Notice**”) regarding that Proposed Director to all the Founding Israeli Shareholders. Any Founding Israeli Shareholder may, within seven Business Days from receipt of the Company Notice, support the Proposed Director or propose an alternative person as the Qualified Israeli Director (an “**Alternative Director**”).
- 23.2.6.2.2 In the event that by the end of such seven Business Days period, the Company receives written notices supporting the Proposed Director, signed by at least two of the Founding Israeli Shareholders (for the avoidance of doubt, including in this Article 23.2 the shareholders who originally proposed such person), who are the record holders of more than 50% of Minimum Israeli Holding Shares, the Proposed Director shall be appointed as the Qualified Israeli Director (even if an Alternative Director was proposed).
- 23.2.6.2.3 In the event that by the end of such seven Business Days period, the Company receives written notices supporting the Proposed Director, signed by at least two of the Founding Israeli Shareholders, who are not the record holders of more than 50% of Minimum Israeli Holding Shares, and no Alternative Director was proposed, the Proposed Director shall be appointed as the Qualified Israeli Director.

23.2.6.2.4 In the event that by the end of such seven Business Days period, the Company receives written notices supporting the Proposed Director, signed by at least two of the Founding Israeli Shareholders, who are not the record holders of more than 50% of Minimum Israeli Holding Shares, and an Alternative Director was proposed by at least two of the Founding Israeli Shareholders, the Company shall send another notice (the “**Second Company Notice**”) regarding the Proposed Director and the Alternative Director(s) to all the Founding Israeli Shareholders. Any Founding Israeli Shareholder may, within seven Business Days from receipt of the Second Company Notice, support one person of the Proposed Director or the Alternative Director(s) so proposed for appointment as a Qualified Israeli Director. At the end of such (second) seven Business Days period, the person (among the persons included in the Second Company Notice), who’s appointment was supported by written notices, signed by at least two of the Founding Israeli Shareholders, who are record holders holding in the aggregate the highest number of Minimum Israeli Holding Shares among the Founding Israeli Shareholders who sent such notices (as compared to any other person so proposed) shall be appointed as the Qualified Israeli Director.

23.2.6.3. Notwithstanding the foregoing in this Article 23.2.6, any Founding Israeli Shareholder (i) who is an Interested Party (as defined in the License) in a Competing MRT Operator (as defined in the License) of the Company, (ii) in which a Competing MRT Operator of the Company is an Interested Party, or (iii) an Interested Party therein is also an Interested Party in a Competing MRT Operator of the Company, shall not participate in any appointment or replacement process of a Qualified Israeli Director, by providing notices under this Article 23.2.6 or otherwise.

23.3. The Election of Directors and their Terms of Office

- 23.3.1. The Directors shall be elected at each Annual Meeting and shall serve in office until the close of the next Annual Meeting, unless their office becomes vacant earlier in accordance with the provisions of these Articles of Association. Each Director of the Company shall be elected by an Ordinary Majority at the Annual Meeting; provided, however, that external Directors shall be elected in accordance with applicable law and/or any relevant stock exchange rule applicable to the Company. The elected Directors shall commence their terms from the close of the Annual Meeting at which they are elected, unless a later date is stated in the resolution with respect to their appointment. Election of Directors shall not be conducted by separate vote on each candidate, unless so determined by the Board of Directors.
- 23.3.2. In each Annual Meeting, the Directors that were elected in the previous Annual Meeting, and thereafter, in any Extraordinary Meeting shall be deemed to have resigned from their office. A resigning Director may be reelected.
- 23.3.3. Notwithstanding the other provisions of these Articles of Association and without derogating from Article 23.4, an Extraordinary Meeting of the Company may elect any person as a Director, to fill an office which became vacant, or to serve as an additional member to the then existing Board of Directors, or to serve as an external Director (*Dahatz*) or an independent Director and also in any event in which the number of the members of the Board of Directors is less than the minimum set in the Articles of Association provided that the maximum number of Directors permitted under Article 23.1 is not exceeded. Any Director elected in such manner (excluding an external Director (*Dahatz*)) shall serve in office until the coming Annual Meeting, unless his office becomes vacant earlier in accordance with the provisions of these Articles of Association and may be reelected.
- 23.3.4. An elected external Director (*Dahatz*) shall commence his term from the close of the General Meeting at which he is elected, unless a later date is stated in the resolution with respect to his appointment, and shall serve for the period in accordance with the provisions of the Companies Law, notwithstanding Article 23.3 above, unless his office becomes vacant earlier in accordance with the provisions of the Companies Law. A General Meeting may reelect an external Director (*Dahatz*) for additional term(s) as permitted by the Companies Law and the Companies Regulations.

23.4. The election of Directors by the Board of Directors

The Board of Directors shall have the right, at all times, upon approval of at least an Ordinary Majority of the Directors of the Company, to elect any person as a Director, to fill an office which became vacant, or to serve as an additional member to the then existing Board of Directors provided that the maximum number of Directors permitted under Article 23.1 is not exceeded. Any Director elected in such manner shall serve in office until the coming Annual Meeting and may be reelected.

23.5. Alternate Director

Any Director may, from time to time, appoint for himself an alternate Director (hereinafter: the “**Alternate Director**”), dismiss such Alternate Director and also appoint another Alternate Director instead of any Alternate Director, whose office becomes vacant, due to whatever cause, whether for a certain meeting or generally. Anyone who is not qualified to be appointed as a Director and also anyone serving as a Director or as an existing Alternate Director shall not serve as an Alternate Director.

23.6. Intentionally Deleted

23.7. Manner of Appointment or Dismissal of an Alternate Director

Any appointment or dismissal of Alternate Directors, shall be made by means of an advance notice in writing to the corporate secretary, at least 48 hours before the first meeting in which the Alternate Director wishes to participate, signed by the appointing or dismissing body and shall become valid upon the date indicated in the appointment or dismissal notice or upon the date of its delivery to the corporate secretary, whichever is the later, as long as the Alternate Director is qualified to serve as such. The Alternate Director should provide the Company with a declaration regarding his qualifications to serve as a director in the Company, in a form acceptable to the Company Secretary, at least 24 hours before the first meeting in which the Alternate Director wishes to participate.

23.8. Miscellaneous Provisions with Respect to Alternate Directors

23.8.1. Intentionally Deleted

23.8.2. Intentionally Deleted

23.8.3. An Alternate Director shall have all the authority of the Director for whom he is serving as an Alternate Director, with the exception of the authority to vote in meetings at which the Director is present in person.

23.8.4. The office of an Alternate Director shall automatically become vacant, if the office of the Director for whom he is serving as an Alternate Director becomes vacant.

23.9. Termination of the Term of a Director

The term of a Director shall be terminated in any of the following cases:

23.9.1. If he resigns from his office by way of a signed letter, filed with the corporate secretary at the Company's Office;

23.9.2. If he is declared bankrupt or if he reaches a settlement with his creditors within the framework of bankruptcy procedures;

23.9.3. If he is declared by an appropriate court to be incapacitated or convicted out of Israel as stated in Section 233(2) of the Companies Law;

23.9.4. Upon his death;

23.9.5. If he is removed from his office by way of a resolution, adopted by the General Meeting of the Company, even prior to the completion of his term of office;

23.9.6. At the time of giving notice of conviction of a crime, as stated in Section 232 of the Companies Law;

23.9.7. If his term is terminated by the Board of Directors in accordance with the provisions of Section 231 of the Companies Law;

23.9.8. If his term is terminated by the Board of Directors in case the Board of Directors concludes that the office of such Director is in violation to the provisions of the License or any other telecommunications license granted to the Company or to any of its subsidiaries or to any other entity it controls;

23.9.9. At the time of giving notice of imposition of enforcement measures pursuant to section 232A of the Companies Law; or

23.9.10. At the time of giving notice pursuant to section 227A or 245A of the Companies Law.

23.10. The Implications on the Board of Directors of the Termination of the Term of a Director.

In the event that an office of a Director becomes vacant, the remaining Directors are entitled to continue operating, so long as their number has not decreased below the minimum number of Directors set forth in Article 23.1.

In the event that the number of Directors decreased below that minimum number, the remaining Directors shall be entitled to act solely for the convening of a General Meeting of the Company for the purpose of electing additional Directors to the Board of Directors.

23.11. Compensation of Members of the Board of Directors

Members of the Board of Directors who do not hold other positions in the Company and who are not external Directors shall not receive any compensation from the Company, unless such compensation is approved by the General Meeting and according to the amount determined by the General Meeting, subject to the provisions of the Law.

The compensation of the Directors may be fixed, as an all-inclusive payment or as payment for participation in meetings or in any combination thereof.

The Company may reimburse expenses incurred by a Director in connection with the performance of his office, to the extent provided in a resolution of the Board of Directors.

24. **Actions of Directors**

24.1. Convening Meetings of the Board of Directors

24.1.1. The chairman of the Board of Directors may convene a meeting of the Board of Directors at any time.

24.1.2. The chairman of the Board of Directors shall convene a meeting of the Board of Directors at least four times a year, in a manner allowing the Company to fulfill the provisions of the Law with respect to the publication of Financial Statements and reporting to the public.

24.1.3. The chairman of the Board of Directors shall convene a meeting of the Board of Directors on a specific issue if requested by at least two Directors or one Director, if he is an external Director, within no more than 14 days from the date of the request.

24.1.4. The chairman of the Board of Directors shall act forthwith for the convening of a meeting of the Board of Directors, within 14 days from the time that a Director in the Company has informed him of a matter related to the Company in which there is an apparent violation of the Law or a breach of proper management of the business, or from the time that the auditor of the Company has reported to him that he had become aware of material flaws in the accounting oversight of the Company.

24.1.5. In the event that a notice or a report of the General Manager requires an action of the Board of Directors, the chairman of the Board of Directors shall forthwith convene a meeting of the Board of Directors, which should be held within 14 days from the date of the notice or the report.

24.2. Convening of a Meeting of the Board of Directors

24.2.1. Any notice with respect to a meeting of the Board of Directors may be given in writing, so long as the notice is given a reasonable time prior to the date fixed for the meeting, unless a majority of the members of the Board of Directors or their Alternate Directors agree on a shorter time period or, in urgent matters, that no notice will be given. A notice, as stated, shall be delivered in writing or transmitted via facsimile or E-mail or through another means of communication, to the address or facsimile number or to the E-mail address or to an address where messages can be delivered through other means of communication, as the case may be, as the Director informed the corporate secretary, upon his appointment, or by means of a written notice to the corporate secretary thereafter.

A notice, which was delivered or transmitted, as provided in this Article, shall be deemed to be personally delivered to the Director on its delivery date.

24.2.2. In the event that a Director appointed an Alternate Director, the notice shall be delivered to the Alternate Director, unless the Director instructed that the notice should be delivered to him as well.

24.2.3. The notice shall include the venue, date and time of the meeting of the Board of Directors, arrangements with respect to the manner of management of the meeting (in cases where telecommunications are used), the details of the issues on its agenda and any other material that the chairman of the Board of Directors requests be attached to the summoning notice with respect to the meeting.

24.3. The Agenda of Meetings of Board of Directors

The agenda of meetings of the Board of Directors shall be determined by the chairman of the Board of Directors and shall include the following issues:

24.3.1. Issues determined by the chairman of the Board of Directors.

24.3.2. Issues for which the meeting is convened in accordance with Article 24.1 above.

24.3.3. Any issue requested by a Director or by the General Manager within a reasonable time prior to the date of the meeting of the Board of Directors (taking into account the nature of the issue).

24.4. Quorum

The quorum for meetings of the Board of Directors shall be a majority of the Directors, which must include at least one external Director.

24.5. Conducting a Meeting Through Means of Communication

The Board of Directors may conduct a meeting of the Board of Directors through the use of any means of communications, provided all of the participating Directors can hear each other simultaneously.

24.6. Voting in the Board of Directors

Subject to Article 44, issues presented at meetings of the Board of Directors shall be decided upon by a majority of the votes of the Directors present (or participating, in the case of a vote through a permitted means of communications) and voting, subject to the provisions of Article 23.8 above, with respect to Alternate Directors.

Each Director shall have a single vote.

24.7. Written Resolutions

A written resolution signed by all the Directors shall be deemed as a resolution lawfully adopted at a meeting of the Board of Directors. Such a resolution may be made in several copies of the same Document, each of them signed by one Director or by several Directors. Such a resolution may be adopted by signature of only a portion of the Directors, if all of the Directors who have not signed the resolution were not entitled to participate in the discussion and to vote on such resolution in accordance with any Law whatsoever, so long as they confirm in writing that they are aware of the intention to adopt such a resolution.

24.8. Resolutions Approved by Means of Communications

A resolution approved by use of a means of communications by the Directors shall be deemed to be a resolution lawfully adopted at a meeting of the Board of Directors, and the provisions of Article 24.6 above shall apply to the said resolution.

24.9. The Validity of Actions of the Directors

All actions taken in good faith in a meeting of the Board of Directors or by a committee of the Board of Directors or by any person acting as a Director shall be valid, even if it subsequently transpires that there was a flaw in the appointment of such a Director or person acting as such, or if any of them were disqualified, as if any such person was lawfully appointed and was qualified to serve as a Director.

24.10. Minutes of Meetings of the Board of Directors

The chairman of the Board of Directors shall cause that the minutes of meetings of the Board of Directors shall be properly maintained and shall include the following:

24.10.1. Names of those present and participating at each meeting.

24.10.2. All the resolutions and particulars of the discussion of said meetings.

Any such minutes signed by the chairman of the Board of Directors presiding over that meeting or by the chairman of the Board of Directors at the following meeting, shall be viewed as prima facie evidence of the issues recorded in the minutes.

25. **Committees of the Board of Directors**

25.1. Subject to the provisions of the Companies Law, the Board of Directors may delegate its authorities or any part of them to committees, as they deem fit, and they may from time to time cancel the delegation of such an authority. Any such committee, while utilizing an authority as stated, is obligated to fulfill all of the instructions given to it from time to time by the Board of Directors.

25.2. Subject to the provisions of the Companies Law, each committee of the Board of Directors shall consist of at least two Directors, which shall include at least one external Director, and it may include members who are not Directors, with the exception of the audit committee which shall consist of at least three (3) Directors, including all of the external Directors of the Company, and the majority of members who are independent Directors ("*bilti taluy*") as defined in the Companies Law.

25.3. The provisions with respect to meetings of the Board of Directors shall apply to the meetings and discussions of each committee of the Board of Directors, with the appropriate changes, provided that no other terms are set by the Board of Directors in this matter, and provided that the lawful quorum for the meetings of the committee, as stated, shall be at least a majority of the members of the committee, unless otherwise required by Law. The lawful quorum for meetings of the audit committee shall be at least a majority of the members of the committee, provided, that the majority of the present Directors are independent Directors and at least one of them is an external Director.

25.4. Decisions or recommendations of a committee of the Board of Directors that require approval of the Board of Directors, will be brought to the attention of the Directors a reasonable time before the Board of Directors' discussion.

25A. **Committee for Security Matters**

- 25A.1. Notwithstanding any other provision in these Articles, the Board of Directors shall appoint from among its members who have security clearance and security compatibility to be determined by the General Security Service ("Directors with Clearance") a committee to be designated the "Committee for Security Matters". The members of the Committee for Security Matters shall include at least four (4) Directors with Clearance including at least one external Director. Subject to section 25A.2 below, security matters shall be considered only in the context of the Committee for Security Matters. Any decision of, or action by the Committee for Security Matters shall have the same effect as if it had been made or taken by the Board of Directors. The Board of Directors shall consider a security matter only if required pursuant to section 25A.2 below, and subject to the terms of that section. For purposes of this section 25A, "security matters" shall be defined in the same manner as defined in the Bezeq Order (Determination of Essential Service Provided by Bezeq-The Israeli Telecommunications Company Ltd.), 1997, as of March 9, 2005.
- 25A.2. Security matters which the audit committee or Board of Directors shall be required to consider in accordance with the mandatory rules of the Companies Law or other Law applicable to the Company, shall be considered to the extent necessary only by Directors with Clearance. Other Directors shall not be entitled to participate in meetings of the audit committee or Board of Directors dealing with security matters, or to receive information or documents related to these matters. A quorum for these meetings shall include only Directors with Clearance.
- 25A.3. Any Office Holder of the Company who would otherwise be required to receive information or participate in meetings by virtue of his or her position or these Articles or any Law, but who is prevented from doing so by the provisions of this Article 25A, will be released from any liability for any claim of breach of duty of care to the Company which results from her or his inability to receive information or participate in meetings, and the Company shall indemnify any such Office Holder or other officers and hold her or him harmless to the maximum extent permitted by law for any injury or damage she or he incurs as a result of the inability to receive such information or participate in such meetings.
- 25A.4. The shareholders at a general meeting shall not be entitled to assume, delegate, transfer or exercise any of the authorities granted to any other corporate body in the Company with respect to security matters.
- 25A.5. (1) The Minister of Communications shall be entitled to appoint an observer (the "Security Observer") to all meetings of the Board of Directors and its committees. The Security Observer shall have the security clearance and security compatibility to be determined by the General Security Service.

- (2) The Security Observer shall be an employee of the State of Israel qualified to serve as a director pursuant to Chapter C of the Government Companies Law, 1975.
- (3) In addition to any other obligations under Law, the Security Observer shall be bound to preserve the confidentiality of information relating to the Company, except as required to fulfill his responsibilities as an observer. The Security Observer will not act as an observer or in any other position at a competitor of the Company, and will avoid a conflict between his position as an observer and the interests of the Company. The Security Observer shall undertake not to serve as an observer or officer or director, and not serve in any other capacity or be employed, directly or indirectly, by any entity competing with the Company or in a position of conflict of interest with the Company during the period of his service as the Security Observer and for two years after termination of such period.
- (4) Notices of meetings of the Board of Directors and its committees, including of the Committee for Security Matters, shall be delivered to the Security Observer, and he shall be entitled to participate in each such meeting.
- (5) The Security Observer shall have the same right to obtain information from the Company as that of a Director. If the Company believes that specific information requested is commercially sensitive and not required by the Security Observer for fulfillment of his duties, the Company may delay delivery of the information upon notice to the Security Observer. If the Security Observer still believes the information is needed for his duties, the matter shall be brought for decision to the head of the General Security Service.
- (6) If the Security Observer believes that the Company has made a decision, or is about to make a decision, in a security matter, which conflicts with a provision of the License or section 13 of the Communications Law (Telecommunications and Broadcasting), 1982 or section 11 of the General Security Service Law, 2002, he shall promptly notify the Company in writing. Said notice shall be delivered to the chairman of the Board of Directors and chairman of the Committee for Security Matters and shall provide an appropriate defined period of time, in light of the circumstances, in which the Company shall be required to correct the violation or change the decision, to the extent possible.

25B. **Approval of Certain Related Party Transactions**

A transaction of the type described in Section 270(1) of the Companies Law; i.e., a transaction with an Office Holder or a transaction in which an Office Holder has a personal interest (as specified in Section 270(1)), provided that such transactions are in the Company's ordinary course of business, are on market terms and are not likely to substantially influence the profitability of the Company, its assets or its liabilities, may be approved by the audit committee, without the need for Board of Director's approval, or by the Board of Directors, subject to any applicable Law and any relevant stock exchange rule applicable to the Company.

26. **Chairman of the Board of Directors**

26.1. Appointment

- 26.1.1. The Board of Directors shall choose one of its members to serve as the chairman of the Board of Directors, and shall set in the appointing resolution the term for his service.
- 26.1.2. The chairman of the Board of Directors shall serve until the earlier of (i) the date or time provided in the appointing resolution; (ii) election of a substitute chairman by the Board of Directors; (iii) resignation of the chairman from his position as chairman; or (iv) cessation of the chairman's service as a Director.
- 26.1.3. In the event that the chairman of the Board of Directors ceases to serve as chairman, the Board of Directors in its first meeting held thereafter shall choose one of its members to serve as a new chairman.
- 26.1.4. In the event that the chairman of the Board of Directors is absent from a meeting, the Board of Directors shall choose one of the Directors present to preside at the meeting.

26.2. Authority

- 26.2.1. The chairman of the Board of Directors shall preside over meetings of the Board of Directors.
- 26.2.2. In the event of a deadlock vote, the chairman of the Board of Directors shall not have an additional or casting vote.
- 26.2.3. The chairman of the Board of Directors is entitled, at all times, at his initiative or pursuant to a resolution of the Board of Directors, to require reports from the General Manager in matters pertaining to the business affairs of the Company.

26.3. Reservations with Regard to Actions of the Chairman of the Board of Directors

- 26.3.1. The chairman of the Board of Directors or his Relative shall not serve as the General Manager of the Company, unless he is appointed in accordance with the provisions of Article 27.2 below.
- 26.3.2. The chairman of the Board of Directors shall not serve as a member of the audit committee.

- 26.3.3. A subordinate to the General Manager, directly or indirectly, shall not serve as chairman of the Board of Directors. A director in a company controlled by the Company may serve as chairman of the Board of Directors.
- 26.3.4. Powers of the General Manager shall not be granted to the chairman of the Board of Directors or his Relative, except in accordance with the provisions of Article 27.2 below. The chairman of the Board of Directors shall not be granted powers granted to those who are subordinated to the General Manager, directly or indirectly.
- 26.3.5. The chairman of the Board of Directors shall not serve in another position in the Company or in a company controlled by it, but may serve as chairman of the Board of Directors or a director of a company controlled by the Company.

Chapter Five - Office Holders who are not Directors and the Auditor

27. The General Manager

27.1. The Appointment and Dismissal of the General Manager

- 27.1.1. The Board of Directors shall appoint a General Manager for a fixed period of time or for an indefinite period of time. The Board of Directors may appoint more than one General Manager.
- 27.1.2. The compensation and employment conditions of the General Manager shall require the prior approval of the compensation committee, the Board of Directors and the General Meeting of the Company, unless otherwise permitted by the Companies Law.
- 27.1.3. The Board of Directors may from time to time remove the General Manager from his office or dismiss the General Manager and appoint another or others in his stead.

27.2. The Chairman of the Board of Directors as the General Manager

- 27.2.1. The General Meeting of the Company is entitled to authorize the chairman of the Board of Directors or his Relative to fulfill the position of the General Manager or to exercise his authority and to authorize the General Manager or his Relative to fulfill the position of the chairman of the Board of Directors or to exercise his authority, so long as one of the following exists:

The majority of the votes in the General Meeting adopting such a resolution include at least two thirds of the votes of Shareholders present and entitled to vote at the meeting who are not either the Controlling Parties in the Company as defined in the Companies Law or anyone having a Personal Interest (as defined in the Companies Law) in the approval of the resolution, who participate in the vote. "Abstain" votes shall not be taken into account in the counting of the votes of the Shareholders.

The total opposition votes from the Shareholders referred to in Article 27.2.1.1 above do not exceed two percent of the entire voting rights in the Company.

27.2.2. The validity of a resolution provided in Article 27.2.1 above is restricted to periods, each not exceeding three years, from the date of the adoption of the resolution by the General Meeting. In the event that no period was set in the resolution, the period shall be deemed to be for three years. Prior to the completion of the three year period, as aforesaid, and even after the end of this period, the General Meeting is entitled to extend the validity of such resolution.

27.2.3. A resolution, as stated, may relate to the authority of the chairman of the Board of Directors, generally, or to a specific person who is serving as the chairman of the Board of Directors.

27.3. The Authority of the General Manager and Subordination to the Board of Directors

27.3.1. The General Manager is responsible for the day-to-day management of the affairs of the Company within the framework of the policy set by the Board of Directors and subject to its instructions.

The General Manager shall have all administrative and operational authority which were not conferred by Law or pursuant to these Articles of Association to any other corporate organ of the Company, and he shall be under the supervision of the Board of Directors and subject to its instructions.

The General Manager shall appoint and dismiss Office Holders of the Company, with the exception of Directors, and he shall also determine the terms of their employment subject to the prior approval of the compensation committee and the Board of Directors, unless otherwise permitted or required by the Companies Law and provided, however, that the appointment and dismissal of senior managers of the Company shall require consultation with and approval by the Board of Directors.

27.3.2. The Board of Directors may instruct the General Manager on how to act with respect to a certain issue. If the General Manager fails to fulfill the instruction, the Board of Directors may exercise the required authority in order to act in the place of the General Manager.

The Board of Directors may assume the authority granted to the General Manager, either with respect to a certain issue or for a certain period of time.

27.3.3. In the event that the General Manager is unable to exercise his authority, the Board of Directors may exercise such authority in his stead, or authorize another to exercise such authority.

27.4. Reporting Duties of the General Manager

The General Manager is obligated to notify the chairman of the Board of Directors of any exceptional matter which is material to the Company, or of any material deviation by the Company from the policy set by the Board of Directors. In the event that the Company shall be without a chairman of the Board of Directors for whatever reason the General Manager shall notify all the members of the Board of Directors, as aforesaid. The General Manager shall deliver to the Board of Directors reports on issues, at such time and in such scope, as is determined by the Board of Directors.

27.5. Delegating Authority of the General Manager

The General Manager, upon approval of the Board of Directors, may delegate to his subordinates any of his authority. However, such delegation of authority shall not release the General Manager from his liability.

28. **The Corporate Secretary, Internal Controller and Other Office Holders of the Company**

28.1. The Corporate Secretary

28.1.1. The Board of Directors is entitled to appoint a corporate secretary on terms it deems fit, joint secretaries, sub-secretaries and to determine the areas of their functions and authorities.

28.1.2. In the event that no corporate secretary has been appointed, the General Manager or anyone authorized by him shall fulfill the functions assigned to the corporate secretary, in accordance with any Law, to these Articles of Association and the resolutions of the Board of Directors.

28.1.3. The corporate secretary shall be responsible for all documents which are kept at the Office, as stated in Section 124 of the Companies Law, and he shall manage all the registries maintained by the Company in accordance with the Law or Companies Law.

28.2. Internal Controller

28.2.1. The internal controller of the Company shall report to the chairman of the Board of Directors.

28.2.2. The internal controller shall file with the Board of Directors a proposal for an annual or other periodic work plan, which shall be approved by the Board of Directors, subject to any changes it deems fit.

28.3. Other Office Holders of the Company

The Board of Directors may decide that in addition to the General Manager and the corporate secretary, other Office Holders may be appointed, whether generally or for a specific issue. In such event, the Board of Directors shall appoint the Office Holder, define his position and authority, and set his compensation and terms of employment, following approval of the compensation committee unless otherwise permitted or required by the Companies Law.

The Board of Directors is entitled, subject to the Companies Law, to authorize the General Manager to fulfill any or all of its authorities, as stated.

29. **The Auditor**

29.1. The Shareholders at the Annual Meeting shall appoint an auditor for a period until the close of the following Annual Meeting. The Annual Meeting may appoint an auditor for a period not to extend beyond the close of the third Annual Meeting following the Annual Meeting in which he was appointed. In the event that the auditor was appointed for said period, the Annual Meeting shall not address the appointment of the auditor during said period, unless a resolution is adopted with respect to the termination of his service.

29.2. The General Meeting is entitled at all times to terminate the service of the auditor or to decide not to renew it.

29.3. The Board of Directors shall determine the compensation of the auditor of the Company and it shall report in that respect to the Annual Meeting of the Company.

- 29.4. The Board of Directors shall set the compensation of the auditor for additional services which are not regarded as oversight activities, and it shall report in this respect at the Annual Meeting of the Company.

Chapter Six - The Share Capital of the Company and its Distribution

30. **Permitted Distributions**

30.1. Definitions

In this Chapter, the following terms shall be construed, in accordance with their definition in Sections 1, 301 and 302 of the Companies Law: “distribution”, “acquisition”, “profits”, “profit test”, “adjusted financial statements” and “balances”.

30.2. Distribution of Profits

The Company shall not make any distribution other than from its profits, provided that the Company shall not make any distribution if there is a reasonable concern that such distribution shall preclude the Company from having the ability to meet its present and anticipated liabilities, as they become due. Notwithstanding the aforesaid, the Company, with the approval of an authorized court, is entitled to make a distribution which fails to meet the profit test.

30.3. Allotment for a Consideration Below the Par Value

In the event the Board of Directors decides to allot Shares having a par value, for consideration which is less than their par value, including Bonus Shares, the Company shall convert into share capital from its profits, premium on its Shares, or any other source, included in its shareholders equity, as stated in its most recent Financial Statements, an amount equal to the difference between the par value and the consideration.

Even if the aforesaid is not done, with the approval of an authorized court, the Company shall be entitled to make an allotment of Shares, for consideration which is less than their par value.

31. **Dividends and Bonus Shares**

31.1. Right to Dividends or Bonus Shares

31.1.1. A Shareholder of the Company shall have the right to receive dividends or Bonus Shares, if the Company so decides in accordance with Article 31.2 below, consistent with the rights attaching to such Shares.

- 31.1.2. Dividends or Bonus Shares shall be distributed or allotted to those who are registered in the Shareholder Register on the date of the resolution approving the distribution or allotment or upon a later date, if another date is determined for this purpose in same resolution (hereinafter: the “Determining Date”).
- 31.1.3. In the event that the share capital of the Company consists of Shares having various par values, dividends or Bonus Shares shall be distributed in proportion to the par value of each Share.
- 31.1.4. Subject to special rights conferred upon Shares in accordance with the conditions of their allotment, profits of the Company which the Company decides to distribute as a dividend or as Bonus Shares shall be paid in proportion to the amount which was paid or credited on the account of the par value of the Shares, held by the Shareholder.
- 31.1.5. In the event that it was not otherwise determined in the conditions applicable to the allotment of the Shares or in a resolution of the General Meeting, all the dividends or Bonus Shares with respect to Shares, which were not fully paid within the period in which the dividends or Bonus Shares are paid, shall be paid in proportion to the amounts which were actually paid or credited as paid on the par value of the Shares during any part of said period (pro rata temporis).
- 31.2. Resolution of the Company with Respect to a Dividend or Bonus Shares
 - 31.2.1. The Authority to Distribute Dividends or Bonus Shares

The resolution of the Company on the distribution of a dividend or Bonus Shares to be distributed to the Shareholders according to their respective rights and benefits, and on their time of payment, shall be made by the Board of Directors.
 - 31.2.2. Funds

The Board of Directors may, in its discretion, allocate to special funds any amount whatsoever from the profits of the Company or from the revaluation of its assets or its relative share in the revaluation of assets of “branch companies,” and also to determine the designation of these funds.
- 31.3. The Payment of Dividends

31.3.1. Manner of Payment

Unless otherwise provided in the resolution with respect to the distribution of the dividend, the Company may pay any dividend with the withholding of any tax required by Law, by way of a cheque to the order of the beneficiary alone, which should be sent by means of registered mail to the registered address of the Shareholder entitled thereto, or by way of a bank transfer. Any cheque, as stated, shall be drawn up to the order of the person to whom it is intended.

In the event of registered joint holders, the cheque shall be passed to the same Shareholder whose name is registered first in the Shareholder Register with respect to the joint holding.

The sending of a cheque to a person whose name is registered in the Shareholder Register as the holder of the Share upon the Determining Date or, in the case of joint holders, to any of the joint holders, shall serve as evidence with respect to all the payments made in connection with same Shares.

The Company may decide that a cheque under a certain amount shall not be sent and the amount of the dividend which was supposed to be paid shall be deemed to be an unclaimed dividend.

31.3.2. An Unclaimed Dividend

The Board of Directors is entitled to invest the amount of any unclaimed dividend for one year after it was declared or to utilize it in any other manner to the benefit of the Company until it is claimed. The Company shall not be obligated to pay interest or Linkage on an unclaimed dividend.

31.3.3. Specific Dividend

In the event the Company declares a dividend, as provided in Article 31.2.1 above, it may decide that same dividend shall be paid, entirely or partially, by way of the distribution of certain assets, including fully paid shares or bonds of any other company or in any combination of these assets.

31.4. Manner of Capitalization of Profits and the Distribution of Bonus Shares

31.4.1. Subject to the provisions of Article 30 above in the event of a capitalization of profits and distribution of Bonus Shares, the undistributed profits of the Company, or premium on Shares, or funds derived from the revaluation of the assets of the Company, or funds derived on the basis of equity from the profits of “branch companies,” or from the revaluation of assets of “branch companies” and capital redemption funds shall be capitalized and distributed among the Shareholders entitled thereto, as per the provisions of Article 31.1 above, to be held by the shareholders as capital, and that this capital, entirely or partially, shall be used on behalf of same Shareholders as full payment, whether according to the par value of the Shares or together with premium decided upon, for Shares to be distributed accordingly, and that this distribution or payment shall be received by same Shareholders as full consideration for their portion of the benefit in the capitalized amount, as determined by the Board of Directors.

The provisions of this chapter six shall also apply to the distribution of bonds.

31.4.2. The Company, in the resolution with respect to the distribution of Bonus Shares, is entitled in accordance with the recommendation of the Board of Directors, to decide that the Company shall transfer to a special fund, designated for the future distribution of Bonus Shares, an amount the capitalization of which shall be sufficient in order to allot to anyone having at such time a right to acquire Shares of the Company (including a right which can be exercised only upon a later date), Bonus Shares at the par value which would have been due to him had he exercised the right to acquire the Shares shortly before the Determining Date, at the price of the right in effect at such time. In the event that after the Determining Date, the holder of said right shall exercise his right to acquire the Shares or any part of them, the Board of Directors shall allot to him fully paid Bonus Shares at such par value and of such class, which would have been due to him had he exercised shortly before the Determining Date the right to acquire those Shares he actually acquired, by way of an appropriate capitalization made by the Board of Directors out of the special fund, as aforesaid. For the purpose of the determination of the par value of the Bonus Shares which are to be distributed, any amount transferred to the special fund, with respect to a previous distribution of previous Bonus Shares shall be viewed as if it had already been capitalized and that Shares entitling the holders to the right to acquire Shares of the Company were already allotted as Bonus Shares.

31.4.3. Upon the distribution of Bonus Shares, each Shareholder of the Company shall receive Shares of a uniform class or of the class which confers on its holder the right to receive the Bonus Shares, as determined by the Board of Directors.

- 31.4.4. For purposes of carrying out any resolution pursuant to the provisions of Article 30, the Board of Directors may settle, as it deems fit, any difficulty arising with regard to the distribution of Bonus Shares, and, in particular, to issue certificates for fractions of Shares and sell such fractions of Shares, in order to pay their consideration to those entitled thereto, and also to set the value for the distribution of certain assets and to decide that cash payments shall be paid to the Shareholders on the basis of the value determined in such a way, or that fractions whose value is less than NIS 0.01 shall not be taken into account, pursuant to the adjustment of the rights of all parties. The Board of Directors may pay cash or convey these certain assets to trustees in trust in favor of those people who are entitled to a dividend or to a capitalized fund, as the Board of Directors shall deem beneficial.

32. **Acquisition of Shares**

- 32.1. The Company is entitled to acquire or to finance an acquisition, directly or indirectly, of Shares of the Company or securities convertible into Shares of the Company or which could be exercised into Shares of the Company, including incurring an obligation to take any of these actions, subject to the fulfillment of the conditions of a permissible distribution, as stated in Article 30 above.
- 32.2. In the event that the Company acquired any of its Shares, such a Share shall become a dormant Share, and shall not confer any rights, so long as it is owned by the Company.
- 32.3. A subsidiary or another company under the control of the Company is entitled to acquire Shares of the Company or securities convertible into Shares of the Company or which can be exercised into Shares of the Company, including an obligation to take any of these actions, to the same extent the Company may make a distribution, so long as the board of directors of the subsidiary or the managers of the acquiring company have determined that had the acquisition of the Shares or convertible securities been carried out by the Company it would have been regarded as a permissible distribution, as specified in Article 30 above. Notwithstanding the foregoing, an acquisition by a subsidiary or by another company under the control of the Company, which is not fully-owned by the Company, will be considered a distribution of an amount equal to the product of the amount acquired multiplied by the percentage of the rights in the capital of the subsidiary or in the capital of said company which is held by the Company.
- 32.4. In the event that a Share of the Company is acquired by a subsidiary or by a corporation in the control of the Company, the Share shall not confer any voting rights, for so long as said Share is held by the subsidiary or by said controlled corporation.

33. **Insurance of Office Holders**

- 33.1. The Company may insure the liability of an Office Holder in the Company, to the fullest extent permitted by Law.
- 33.2. Without derogating from the aforesaid, the Company may enter into an insurance contract and/or arrange and pay all premiums in respect of an insurance contract, for the insurance of the liability of an Office Holder in the Company, resulting directly or indirectly from an action or inaction by him (or together with other Office Holders or other officers of the Company) in his capacity as an Office Holder in the Company, for any of the following:
- 33.2.1. The breach of the duty of care toward the Company or toward any other person;
 - 33.2.2. The breach of the duty of loyalty toward the Company provided the Office Holder has acted in good faith and had reasonable grounds to assume that the action would not harm the Company; and
 - 33.2.3. A financial liability imposed on him in favor of another person.
 - 33.2.4. Any other matter in respect of which it is permitted or will be permitted under Law to insure the liability of an Office Holder in the Company.
 - 33.2.5. A payment which the Office Holder is obligated to pay to an injured party as set forth in Section 52.54(a)(1)(a) of the Securities Law and expenses that the Office Holder incurred in connection with a proceeding under Chapters H3, H4 or I1 of the Securities Law, or under Chapter 4 of Part 9 of the Companies Law, in connection with any affairs, including reasonable legal expenses, which term includes attorney fees.

34. **Indemnification of Office Holders**

- 34.1. The Company may indemnify an Office Holder in the Company to the fullest extent permitted by Law. Without derogating from the aforesaid, the Company may indemnify an Office Holder in the Company as specified in Articles 34.2 through 34.4 below.
- 34.2. Indemnification
- The Company may indemnify an Office Holder in the Company for liability or expense he incurs or that is imposed on him in consequence with an action or inaction by him (or together with other Office Holders or other officers of the Company) in his capacity as an Office Holder in the Company, as follows:

- 34.2.1. Any financial liability he incurs or is imposed on him in favor of another person in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator, approved by an authorized court.
- 34.2.2. Reasonable legal expenses, including attorney fees, incurred by the Office Holder or which he was ordered to pay by an authorized court, in the context of a proceeding filed against him by the Company or on its behalf or by a third party, or in a criminal proceeding in which he was acquitted, or in a criminal proceeding in which he was convicted of an offense which does not require criminal intent.
- 34.2.3. Reasonable legal expenses, including attorney fees, incurred by the Office Holder due to such investigation or proceeding conducted against him by an authority authorized to conduct an investigation or proceeding, and which was ended without filing an indictment against him and without the imposition of a financial liability as a substitute for a criminal proceeding, or that was ended without filing an indictment against him but for which he was subject to a financial liability as a substitute for a criminal proceeding relating to an offense which does not require criminal intent, within the meaning of the relevant terms under the Law, or in connection with a financial sanction ("*itzum caspi*").
- 34.2.4. Any other liability or expense in respect of which it is permitted or will be permitted under Law to indemnify an Office Holder in the Company.
- 34.2.5. A payment which the Office Holder is obligated to pay to an injured party as set forth in Section 52.54(a)(1)(a) of the Securities Law and expenses that the Office Holder incurred in connection with a proceeding under Chapters H3, H4 or I1 of the Securities Law, or under Chapter 4 of Part 9 of the Companies Law, in connection with any affairs, including reasonable legal expenses, which term includes attorney fees.
- 34.3. Indemnification in Advance
- The Company may undertake in advance to indemnify an Office Holder of the Company in respect of the following matters:

34.3.1. Matters as detailed in Article 34.2.1; provided, however, that the undertaking to indemnify is restricted to events which in the opinion of the Board of Directors are anticipated in light of the Company's activities at the time of granting the obligation to indemnify, and is limited to a sum or measurement determined by the Board of Directors to be reasonable in the circumstances. The aggregate indemnification amount payable by the Company to all indemnified persons, pursuant to all letters of indemnification issued to them by the Company on or after October 17, 2013, which indemnification letters include a maximum indemnity amount substantially similar to the maximum indemnity amount in this article 34.3.1, in respect of any occurrence of an event specified in the appendix to the pertinent indemnification letter, shall not exceed 25% of shareholders' equity (according to the latest reviewed or audited financial statements approved by the Company's Board of Directors prior to approval of the indemnification payment). The undertaking to indemnify shall specify the events that, in the opinion of the Board of Directors are expected in light of the Company's actual activity at the time of grant of the indemnification and the sum or measurement which the Board of Directors determined to be reasonable under the circumstances.

34.3.2. Matters as detailed in Article 34.2.2 to 34.2.5 (inclusive).

34.3.3. Any other matter permitted by Law.

34.4. Indemnification after the Fact

The Company may indemnify an Office Holder in the Company for any and all kinds of events, retrospectively, subject to any applicable Law.

35. **Release of Office Holders**

35.1. The Company shall not release an Office Holder from his liability for a breach of the duty of care toward the Company, other than in accordance with the provisions of this Article.

35.2. The Company may release an Office Holder in the Company, in advance, from his liability, entirely or partially, for damage in consequence of the breach of the duty of care toward the Company.

35.3. Notwithstanding the foregoing, the Company may not release an Office Holder from his liability, resulting from any of the following events:

35.3.1. The breach of the duty of loyalty toward the Company;

- 35.3.2. The breach of the duty of care made intentionally or recklessly ("pezizut"), other than if made only by negligence;
- 35.3.3. An act intended to unlawfully yield a personal profit;
- 35.3.4. A fine ("knass"), a civil fine ("knass ezrahi"), a financial sanction ("itzum caspi") or a penalty ("kofer") imposed on him; and
- 35.3.5. The breach of the duty of care in a Distribution ("haluka").

35A. **Certain Legal Amendments**

Any amendment to the Companies Law, the Securities Law or any other applicable law adversely affecting the right of any Office Holder to be indemnified, insured or released pursuant to Articles 33 to Article 35 (including Article 35), shall be prospective in effect, and shall not affect the Company's obligation or ability to indemnify, insure or release an Office Holder for any act or omission occurring prior to such amendment, unless otherwise expressly provided under the Companies Law, the Securities Law or such other applicable law.

Chapter Eight - Liquidation and Reorganization of the Company

36. **Liquidation**

- 36.1. In the event that the Company is liquidated, whether voluntarily or otherwise, the liquidator, upon the approval of an Extraordinary Meeting, may make a distribution in kind to the Shareholders of all or part of the property of the Company, and he may with a similar approval of the General Meeting, deposit any part of the property of the Company with trustees in favor of the Shareholders, as the liquidator with the aforementioned approval, deems fit.
- 36.2. The Shares of the Company shall confer equal rights among them with respect to capital amounts which were paid or which were credited as paid on the par value of the Shares, in all matters pertaining to the refund of the capital and to the participation in the distribution of the balance of the assets of the Company in liquidation.

37. **Reorganization**

- 37.1. Upon the sale of the property of the Company, the Board of Directors or the liquidators (in case of a liquidation), if they are so authorized by a resolution of the General Meeting of the Company adopted with a Special Majority, may receive fully or partially paid up Shares, bonds or securities of another company, either Israeli or foreign, whether incorporated or which is about to be incorporated for the purpose of acquiring property of the Company, or any part thereof, and the Directors (if the profits of the Company allow for it) or the liquidators (in case of a liquidation) may distribute among the Shareholders the Shares or the securities mentioned above or any other property of the Company without selling them or depositing them with trustees on behalf of the Shareholders.

- 37.2. The General Meeting may, pursuant to a resolution adopted by a Special Majority, decide on the valuation of the securities or of the aforementioned property at a price and in the same manner as it deems appropriate and all the Shareholders shall be obligated to accept any valuation or distribution, authorized in accordance with the foregoing and to waive their rights in this matter, unless the Company is about to liquidate or is in a liquidation process, of same lawful rights (if any) which according to the provisions of the Law should not be altered or denied.

Chapter Nine - Miscellaneous

38. **Notices**

- 38.1. A notice or other document may be sent by the Company to any Shareholder appearing in the Shareholder Register of the Company either personally or by way of sending by registered mail, at the registered address of the Shareholder in the Shareholder Register, or at such address as such Shareholder shall have provided in writing to the Company as the address for the delivery of notices.
- 38.2. All the notices to be given to Shareholders registered in the Shareholders Register, shall, in respect of Shares held jointly, be given to the person whose name is mentioned first in the Shareholder Register, and any notice given in such a manner shall be viewed as a sufficient notice to all such joint Shareholders.
- 38.3. Any Shareholder registered in the Shareholder Register, with an address, whether in Israel or overseas, is entitled to receive, at such address, any notice he is entitled to receive in accordance with the Articles of Association or according to the provisions of the Law. Unless otherwise stated above, no person who is not registered in the Shareholder Register shall be entitled to receive any notices from the Company.
- 38.4. Any notice or other document which is sent to a Shareholder in accordance with these Articles of Association shall be considered lawfully sent with respect to all the Shares held by him (whether with respect to Shares held by him alone or held by him jointly with others) even if same Shareholder had died by that time or had become bankrupt or had received an order for its liquidation or if a trustee or a liquidator or a receiver was appointed with respect to his Shares (whether the Company was aware of it or not) until another person is registered in the Shareholder Register in his stead, as the holder thereof. The sending of a notice or other document, as aforesaid, shall be viewed as a sufficient sending to any person having a right in these Shares.
- 38.5. Any notice or other document which was sent by the Company via registered mail, to an address in Israel, shall be considered sent within 72 hours from its posting at the post office. In order to prove sufficient sending, it is enough to show that the letter containing the notice or the document was addressed to the correct address and was posted at the post office.

- 38.6. Any accidental omission with respect to the giving of a notice of a General Meeting to any Shareholder or the non-receipt of a notice with respect to a meeting or any other notice on the part of whatever Shareholder shall not cause the cancellation of a resolution taken at that meeting, or the cancellation of processes based on such notice.
- 38.7. Any Shareholder and any member of the Board of Directors may waive his right to receive notices or waive his right to receive notices during a specific time period or in general and he may consent that a General Meeting of the Company or a meeting of the Board of Directors, as the case may be, shall be convened and held notwithstanding the fact that he did not receive a notice with respect to it, or notwithstanding the fact that the notice was not received by him within the required time, in each case subject to the provisions of any Law prohibiting any such waiver or consent.

Chapter 10 - Intentionally Deleted

39. Intentionally Deleted
40. Intentionally Deleted
41. Intentionally Deleted
42. Intentionally Deleted

Chapter 11- Compliance with the License / Limitations on Ownership and Control

43. **Compliance**

The Shareholders and the Company shall at all times comply with the terms of the License and of any other telecommunications license held by the Company. Nothing herein shall be construed as requiring or permitting the performance of any acts which are inconsistent with the terms of the License and of any other telecommunications license held by the Company. If any article of these Articles shall be found to be inconsistent with the terms of the License and of any other telecommunications license held by the Company, the provisions of such Article shall be null and void, but the validity, legality or enforceability of provisions of the other Articles shall not be affected thereby.

44. **Limitations on Ownership and Control**

- 44.1. This Article is to ensure that so long as and to the extent that any Operating Right is conditional on or subject to any conditions or restrictions relating to ownership or control over the Company imposed by the Ministry, the Company is so owned and controlled. This Article shall not affect or influence in any way the interpretation or application of Article 10A.

44.2. In this Article:

“**Affected Share**” means any Share determined to be dealt with as such pursuant to Article 44.4;

“**Affected Share Notice**” means a notice in writing served in accordance with Article 44.5;

“**Depository**” means a custodian or other person appointed under contractual arrangements with the Company (or a nominee for such custodian or other person) whereby such custodian or other person holds or is interested in Shares and which issues securities evidencing the right to receive such Shares;

“**Depository Receipts**” means receipts or similar documents of title issued by or on behalf of a Depository;

“**Depository Shares**” means the Shares held by a Depository or in which a Depository is interested in its capacity as a Depository;

“**Intervening Act**” means the refusal, withholding, suspension or revocation of any Operating Right applied for, granted to or enjoyed by the Company, or the imposition of any conditions or limitations upon any such Operating Right which materially inhibit the exercise thereof, in either case by any state, authority or person (including the Ministry) by reason of the activities of persons holding Shares in and/or controlling the Company;

“**Ministry**” means the Ministry of Communications and/or Minister of Communications;

“**Operating Right**” means all or any part of any authority, permission, licence or privilege applied for, granted to or enjoyed by the Company, including the Licence, for the establishment, subsistence, maintenance and operation of a mobile radio telephone system using the cellular method and the provision of mobile radio telephone services to the public in Israel;

“**Permitted Maximum**” means the maximum aggregate permitted number of Relevant Shares specified by the Board of Directors in accordance with the terms of the Licence, any other requirements of the Ministry and any relevant requirements of Law;

“**Relevant Person**” means:

- (a) any person who, without the approval of the Ministry, acquires, directly or indirectly, any Means of Control (as defined in the Licence) in breach of Section 21 of the Licence other than a person who falls within Article 10A; or
- (b) any Interested Party (as defined in the Licence) who, or who has an Office Holder (as defined in the Licence) who, is in breach of Sections 23 or 24 of the License other than a person who falls within Article 10A;

“Relevant Share” means any Share (other than a Share removed from the Relevant Shares Register (defined in Article 44.3.2) pursuant to Article 44.3.5), in which a Relevant Person has an interest or which is declared to be a Relevant Share pursuant to Article 44.3.4;

44.3.

44.3.1. The Board of Directors shall not register a person as a holder of a Share unless the person has given to the Board of Directors a declaration (in a form prescribed by the Board of Directors) signed by him or on his behalf, stating his name, nationality, that he is not a Relevant Person falling within paragraphs (a) or (b) of the definition of that term and other information required by the Board of Directors.

44.3.2. The Board of Directors shall maintain a register (the “Relevant Shares Register”), in which particulars shall be entered of any Share which has been:

- (a) acknowledged by the holder (or by a joint holder) to be a Relevant Share;
- (b) declared to be a Relevant Share pursuant to Article 44.3.4; or
- (c) determined to be an Affected Share pursuant to Article 44.4.2;

and which has not ceased to be a Relevant Share. The particulars in the Relevant Shares Register in respect of any Share shall include the identity of the holder or joint holders and information requested by and supplied to the Board of Directors.

44.3.3. Each registered holder of a Share which has not been acknowledged to be a Relevant Share who becomes aware that such Share is or has become a Relevant Share shall forthwith notify the Company accordingly.

44.3.4. The Board of Directors may notify in writing the registered holder of a Share which is not in the Relevant Shares Register and appears to be a Relevant Share, requiring him to show that the Share is not a Relevant Share. Any person to whom such notice has been issued may within 21 clear days after the issue of the notice (or such longer period as the Board of Directors may decide) represent to the Board of Directors why such Share should not be treated as a Relevant Share but if, after considering such representations and other relevant information, the Board of Directors is not so satisfied, it shall declare such Share to be a Relevant Share and treat it as such.

- 44.3.5. The Board of Directors shall remove a Relevant Share from the Relevant Shares Register if the holder of the Relevant Share gives to the Board of Directors a declaration (in a form prescribed by the Board of Directors), together with such other evidence as the Board of Directors may require, which satisfies it that such Share is no longer, or should not be treated, as a Relevant Share.
- 44.4.
- 44.4.1. Article 44.4.2 shall apply for so long as the Company holds or enjoys any Operating Right where the Board of Directors determines that it is necessary to take steps to protect any Operating Right because an Intervening Act is contemplated, threatened or intended, may take place or has taken place;
- 44.4.2. Where a determination has been made under Article 44.4.1, the Board of Directors shall take such of the following steps as they consider necessary or desirable to overcome, prevent or avoid an Intervening Act:
- the Board of Directors may remove any Director from office, by a resolution passed by a majority of 75 per cent or more of the other Directors present and voting at the relevant meeting;
- the Board of Directors may seek to identify those Relevant Shares which gave rise to the determination under Article 44.4.1 and by a resolution passed by a majority of 75 per cent or more of the Directors present and voting at the relevant meeting deal with such Shares as Affected Shares; and
- when the aggregate number of Relevant Shares in the Relevant Shares Register exceeds the Permitted Maximum, the Board of Directors may deal with the Relevant Shares which it decides, by a resolution passed by a majority of 75 per cent or more of the Directors present and voting at the relevant meeting, are in excess of the Permitted Maximum as Affected Shares.

- 44.5. The Board of Directors shall give an Affected Share Notice to the registered holder of any Affected Share and state that Article 44.6 is to be applied forthwith in respect of such Affected Share. The registered holder of the Affected Share may within 21 clear days after the issue of the notice (or such longer period as the Board of Directors may decide) represent to the Board of Directors why such Share should not be treated as an Affected Share and if, after considering such representations and other relevant information, the Board of Directors considers that the Share should not be treated as an Affected Share it shall forthwith withdraw the Affected Share Notice and Article 44.6 shall no longer apply to the Share.
- 44.6. An Affected Share in respect of which an Affected Share Notice has been served shall be treated as a dormant share (as defined in section 308 of the Companies Law) except that the registered holder of the Affected Share shall continue to have the right to receive dividends and other distributions of the Company and participate in bonus or rights issues of the Company in respect of such Share.
- 44.7. In deciding which Shares are to be treated as Affected Shares, the Board of Directors shall have regard to the Relevant Shares which in its opinion have directly or indirectly caused the determination under Article 44.4 and the chronological order in which Relevant Shares have been entered in the Relevant Shares Register (and accordingly treat as Affected Shares those Relevant Shares entered in the Relevant Shares Register most recently) except where such criterion would in their opinion be inequitable, in which event the Board of Directors shall apply such other criterion or criteria as they may consider appropriate.
- 44.8. Subject to the other provisions of this Article 44, the Board of Directors shall be entitled to assume without enquiry that:
- 44.8.1. all Shares not in the Relevant Shares Register and not falling within clause 44.8.2 are neither Relevant Shares nor Shares which would be or be capable of being treated as Affected Shares; and
- 44.8.2. all or some specified number of the Shares are Relevant Shares held by a Relevant Person falling within paragraphs (a)-(b) in the definition of that term if they (or interests in them) are held by a Depositary, trustee, registration or nominee company or other agent unless and for so long as, in respect of any such Shares, it is established to their satisfaction that such Shares are not Relevant Shares.
- 44.9. Any resolution or determination of, or any decision or the exercise of any discretion or power by, the Board of Directors or any one of the Directors under this Article 44 shall be final and conclusive.
- 44.10.
- 44.10.1. On withdrawal of the determination under Article 44.4.1, the Board of Directors shall cease to act pursuant to such determination and inform every person on whom an Affected Share Notice has been served that Article 44.6 no longer applies in respect of such Share. The withdrawal of such a determination shall not affect the validity of any action taken by the Board of Directors under this Article whilst that determination remained in effect and such actions shall not be open to challenge on any ground whatsoever.

44.10.2. The Board of Directors shall, so long as it acts reasonably and in good faith, be under no liability to the Company or to any other person for failing to treat any Share as an Affected Share or any person as a Relevant Person in accordance with this Article and it shall not be liable to the Company or any other person if, having acted reasonably and in good faith it determines erroneously that any Share is an Affected Share, or any person is a Relevant Person or on the basis of such determination or any other determination or resolution, they perform or exercise their duties, powers, rights or discretions under this Article in relation to such Share.

44.11. A person who has an interest in Shares by virtue of having an interest in Depositary Receipts shall be deemed to have an interest in the number of Shares represented by such Depositary Receipts and not (in the absence of any other reason why he should be so treated) in the remainder of the Depositary Shares held by the relevant Depositary.

45. **Cross Ownership and Control**

45.1. An Office Holder in the Company, an Interested Party in the Company, or an Office Holder in any Interested Party in the Company will

not be a party to any agreement, arrangement or understanding with a Competing MRT Operator of the Company, or an Interested Party or an Office Holder in it, or an Office Holder in an Interested Party in a Competing MRT Operator of the Company, or any other body in which a Competing MRT Operator of the Company is an Interested Party, which are intended to or might reduce or harm competition in anything that pertains to MRT Services, MRT Terminal Equipment or any other Telecommunications (Bezeq) Services.

45.2. An Office Holder in the Company, an Interested Party in the Company, or an Office Holder in any Interested Party in the Company will

not Hold, directly or indirectly, five percent (5%) or more of any Means of Control of a Competing MRT Operator of the Company, or serve as an Office Holder in a Competing MRT Operator or in an Interested Party in a Competing MRT Operator of the Company (subject to certain exceptions specified in the License); for this matter, "Holding" includes holding as an agent.

45.3. An Office Holder in the Company, an Interested Party in the Company, or an Office Holder in any Interested Party in the Company will not Control a Competing MRT Operator of the Company, and will not cause himself, by any act or omission, to be Controlled by a Competing MRT Operator of the Company or by an Office Holder or an Interested Party in a Competing MRT Operator of the Company, or by an Interested Party in a Competing MRT Operator of the Company, or by a person or entity that Controls a Competing MRT Operator of the Company.

For the purposes of Article 45, the terms - "Competing MRT Operator," "Interested Party," "Office Holder," "MRT Services," "MRT Terminal Equipment," "Telecommunications (Bezeq) Services," "Means of Control," "Holding" and "Control" - shall bear the same meaning as in, and shall be interpreted in accordance with, the License.

State of Israel
Ministry of Communications

General License

For Partner Communications Company Ltd.

For the Provision of Mobile Radio Telephone Services

Using the Cellular Method (MRT) in Israel

Jerusalem

April 7, 1998

Integrated Version –last updated December 30, 2014

General License

For Partner Communications Company Ltd.

Award of The License

By virtue of my authority pursuant to The Telecommunication Law, 1982, The Wireless Telegraphy Ordinance (New Version), 1972, and all my other authorities pursuant to all law, I award a License to **Partner Communications Company Ltd.** for the establishment of a Mobile Radio Telephone System using the cellular method, its subsistence, maintenance and operation, and for the provision of Mobile Radio Telephone services to the public in Israel through it, as set out in this License.

The License is issued for the period set out in the License and is subject to the following conditions:

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Chapter A - General

Section A - Definitions and Interpretation

1. Definitions

1.1 In this License, the following words and expressions will have the meaning appended to them, unless another meaning is implicit in the text or its context.

“Type approval” -	Approval given by the Ministry in accordance with the Law and Ordinance for a model of MRT Terminal Equipment.
“Means of Control” -	In a corporation, each of the following: <ul style="list-style-type: none">(1) Voting rights in the corporation’s general meeting or in an equivalent body in another corporation;(2) The right to appoint a director or managing director;(3) The right to participate in the corporation’s profits;(4) The right to share in the corporation’s remaining assets after payment of debts when the corporation is wound-up;
“Telecommunications” -	Broadcasting, transmission or reception of signs, signals, text, visual forms, voices or information through wire, wireless, an optic system or other electromagnetic systems;
¹ “Franchisee” -	As defined in section 6L(1) of the Law;
“Interested Party” -	Whoever holds, either directly or indirectly, 5% of a specific type of Means of Control; for the purpose of this definition, “holding”, includes holding as an agent;
“The Licensee” -	Partner Communications Company Ltd., which was awarded this License;
“Licensee” -	The body to which the Minister has awarded, in accordance with the Law, a general or special License;

¹ Amendment No. 14

² "General Licensee"	A person who has received a general license to effect telecommunications activities and to provide telecommunications services;
³ Roaming Licensee"-	A person who has won tender 12/2010- a combined license for the provision of cellular mobile radio telephone (MRT) services in Israel –an expansion of the existing license and the grant of a new license;
⁴ "Broadcast Licensee"	as defined in the Law;
"Access Fee" -	Payment for use of other telecommunication systems, including payment for connection, transmission and collection;
"Technical Requirements and Grade of Service" -	Standards of availability and grade of service, standards for Telecommunication Installations and installation instructions, operation and maintenance, all in accordance with the Engineering Plan and the Annexes to this License, and as the Director will order from time to time regarding the Licensee's services;
⁵ "Subscriber Agreement"-	a contract that serves as an agreement between the Licensee and a subscriber, for the provision of all or part of the Licensee's services;
"The Bid" -	The Licensee's bid in the Tender;
"The Bezeq Corporation" -	Bezeq, Israel Telecommunication Corporation Ltd.
"The Law" -	The ⁶ Communications (Telecommunication and Broadcasts) Law, 5742-1982;
⁷ "Holding"	for the purposes of Means of Control, directly or indirectly, whether alone or jointly , including by way of another, and including by way of a trustee or agent, or by a right granted under any agreement, including an option to hold which does not arise from convertible securities, or any other means;

²Amendment No. 14

³ Amendment No. 59

⁴ Amendment No. 14

⁵ Amendment No. 41

⁶ Amendment No. 14

⁷ Amendment No. 14

⁸ “ Transfer ”	for the purposes of Means of Control, directly or indirectly, for valuable consideration or otherwise, in perpetuity or for a fixed period, at once or in portions;
⁹ “ Jointly with Others ”	cooperation on a permanent basis; and the following shall be deemed to be in cooperation on a permanent basis: in respect of an individual – the individual, a person related to him, and a corporation that either of them controls; and in respect of a corporation – the corporation, the person who controls it and a person controlled by either of them;”
“ The Security Forces ” -	The Israel Defense Force, The Israel Police, the General Security Force and the Institution of Intelligence and Special Operations;
“ The Index ” -	The Consumer Price Index that is published by the Central Bureau of Statistics, from time to time, or any other index which will be substituted for it;
“ Cellular Radio Base ” -	A wireless installation operating on the operating frequencies of the MRT System and used for establishing radio contact between subscribers’ MRT Terminal Equipment units in its area of coverage and the MRT exchange;
“ Interface ” -	The physical connection, including optic or wireless, meeting between various operational telecommunications installations; ¹⁰
“ Telecommunication Installation ” -	An installation or device which is primarily designated for telecommunications purposes, including Terminal Equipment; ¹¹
¹² “ Tender No. 1/01 ” -	The tender published by the Ministry on 4 Nissan 5761 (28 March 2001), including clarifications given by the Ministry during the tender, and following which this License has been amended;

⁸ Amendment No. 14

⁹ Amendment No. 14

¹⁰ Amendment No. 14

¹¹ Amendment No. 14

¹² Amendment No. 14

"The Tender" -	Tender No. 7/97, published by the Ministry on July 15, 1997, including clarifications provided by the Ministry during the course of the Tender, following which this License has been awarded;
"The Director" -	The Director General of the Ministry of Communications or his appointee in the matter of this License, wholly or partly;
"Subscriber" -	Whoever has signed a subscriber agreement with the Licensee for obtaining MRT services as a terminal user. ¹³ ;
"Business Subscriber" ¹⁴	<p>a Subscriber that is one of the following:</p> <ul style="list-style-type: none"> (a) a corporation, as defined in the Interpretations Law, 1981; (b) government offices and other quasi-governmental offices; (c) a licensed dealer except for an exempt dealer; (d) a body that was incorporated in a law or by-law.
" Non-Business Subscriber" -	a Subscriber that is not a Business Subscriber;
"Dormant Subscriber" ¹⁵ -	<p>a subscriber that fulfills all of the following conditions:</p> <ul style="list-style-type: none"> (a) Has not received and not made use of MRT services for at least one year, as of 1 January 2008; (b) Does not pay the Licensee any fixed tariffs; (c) Does not have an agreement with the Licensee for a fixed period program.

¹³ Amendment No. 41

¹⁴ Amendment No. 45

¹⁵ Amendment No. 46

"International Communication System" -	a telecommunications installations system , connected or intended to be connected to a Public Telecommunications Network through an International Network Termination Point (NTP), which serves or intends to serve for the transmission of telecommunications messages between an international switch located in Israel and a Telecommunications Installation located outside of Israel, including a satellite ground station and other Telecommunications Installations (hereinafter: "Components of the System"), and including transmission facilities between Components of the System; ¹⁶
"The MRT System"-	The MRT through which the Licensee provides its services;
¹⁷ "DO (Domestic Operator)" -	a holder of a general license for the provision of wireless domestic telecommunications services;
"Mobile Radio Telephone System (MRT)" -	A wireless installation system built according to the cellular method and other installations, through which Mobile Radio Telephone Services are provided to the public, including an MRT exchange, Cellular Radio Bases and wireless or physical transmission channels which connect Cellular Radio Bases, Cellular Radio Bases and an MRT exchange, and between MRT exchanges;
"International Operator" -	An operator which provides International Communication Services to the public in Israel in accordance with a general License awarded by the Minister;
¹⁸ "MRT Operator" -	A holder of a general license for the provision of mobile radio telephone services;
¹⁹ "Competing MRT Operator" -	An MRT Operator that is not the Licensee;

¹⁶ Amendment No. 14

¹⁷ Amendment No. 14

¹⁸ Amendment No. 14

¹⁹ Amendment No. 14

“Domestic Operator” -	An operator who provides communication services (infrastructure, transmission and telephony) to the public in Israel in accordance with a general license from the Minister
“Exchange” -	A Telecommunication Installation in which switching and transmission means are operated, which allows the establishment of contact between various Terminal Equipment units connected to it, and transmission of telecommunication messages between them, including control and monitoring installations and other installations which enable provision of various services to the Licensee’s subscribers or to the subscribers of another Licensee.
“The Ministry” -	The Ministry of Communications;
²⁰ “Transfer Switch” -	A Telecommunications Installation which contains and operates switching, routing and transmission devices which enable the creation of a connection between various switching centers connected thereto, and the transmission of telecommunications messages between them, including monitoring and routing installations;
²¹ National Roaming” (NR)-	The expansion of the services of another MRT Operator (hereinafter-“another operator”) to coverage areas of the Licensee through the Licensee's MRT system, as detailed in section 67E.
“Office Bearer” -	²² a person serving as a director, general manager, chief executive officer, deputy general manager, vice general manager, or a person acting as a replacement of one of the above in a company even under a different title as well as any other manager directly subordinate to the general manager of the company; “Appendices” ²³ The First Annex and the Appendices set out in the Second Annex to the Licensee;

²⁰ Amendment No. 14

²¹ Amendment No. 59

²² Amendment No. 14

²³ Amendment No. 14

“NTP - (Network Termination Point)” -	An interface to one end of which a Public Telecommunication Network is connected, and to the other, Terminal Equipment, a private network, a mobile telephone network or another Public Telecommunications Network, as the case may be;
“International NTP” -	An interface to one end of which a Public Telecommunication Network is connected, and to the other, an International Communication Network;
“Telecommunication Activity” -	Operation of a Telecommunication Installation, its installation, construction or its subsistence, all with the objective of telecommunication;
“The Ordinance” -	The Wireless Telegraphy Ordinance (New Version) 1972;
“Terminal Equipment” -	Telecommunication equipment connected or designated to be connected to the Public Telecommunication Network, through an NTP or a private network, including telephones, modems, facsimile machines or private exchanges;
“MRT Terminal Equipment” -	Hand-held, mobile Terminal Equipment, or Terminal Equipment designated for permanent installation in motor vehicles or ships, designated to be connected to the MRT System by radio communication through Cellular Radio Bases.
“PTP Line (Point to Point)” -	A line which serves for telecommunications, both ends of which are located on an NTP which is not in a public telecommunication network, in which a call or other form of communication which initiates at one end may terminate only in the other end.
²⁴ “Interconnection”	a physical or logical connection between the Public Telecommunications Network of one licensee and the Public Telecommunications Network of another licensee, enabling the transfer of telecommunications messages between the subscribers of both licensees or the provision of services by one licensee to the subscribers of another licensee;

²⁴ Amendment No. 14

“Relative” -	A spouse, parent, son, daughter, brother or sister and their spouses;
“The License” -	This License and all its Appendices as well as any document or condition which has been determined in the License as constituting an integral part of the License or of its conditions;
“the Network”	The Licensee’s MRT system
“Public Telecommunication Network” -	a system of Telecommunications Installations serving or designated to serve as a provider of Telecommunications Services to the entire public around the country, or at least in an area of service that includes exchanges and transmission switches, transmission equipment and an access network including an MRT system and an International Telecommunications System, and with the exception of a private network, Terminal Equipment and MRT Terminal Equipment;
“Wireline Public Telecommunications Network” -	A public domestic telecommunications network, with the exception of an MRT system and an International Telecommunications System;
“Access Network” -	Components of a Public Telecommunications Network used to connect a switching center and a network termination point (NTP) using wireline infrastructure, wireless infrastructure or a combination of the two;”
“The Bezeq Corporation Network” -	The Public Telecommunication Network which serves The Bezeq Corporation for provision of services in accordance with the general License which it was awarded, as well as other Telecommunication Services provided, in accordance with the Law, either by The Bezeq Corporation or by another body;

“Use”	Access to a Telecommunications Installation of the Licensee, including to its Public Telecommunications Network or Access Network, in whole or in part, and the ability to use such , for the implementation of Telecommunications Activity and to provide Telecommunications Services thereby, including the installation of a Telecommunications Installation of another licensee on the Licensee’s telecommunications facility or premises;
“Telecommunication Service” -	Operation of telecommunication activities for the public;
“International Communication Service” -	Telecommunication Service provided for the public in Israel, in accordance with a License granted by the Minister, through an international communications system of an International Operator;
“Basic Telephone Service”-	Switched or routed bi-directional transmission , including via modem, speech or speech-like telecommunications messages, such as facsimile signals;
“Telephony Service” -	Basic Telephone Service and Accompanying Services to such service;
“ ²⁵ International Roaming Service” -	An MRT Service provided overseas and in the territories under the Civil Administration of the Palestinian Council via the MRT system of a foreign MRT operator (hereinafter: a “ Foreign Operator ”), whereby the Subscriber pays the Licensee for the service; and similarly – an MRT Service provided in Israel via the Licensee’s MRT system, whereby the Licensee provides a service to a Foreign Operator for the subscribers of such operator; for this purpose, the “ Palestinian Council ” – as defined in the Law for Implementation of the Interim Agreement regarding the West Bank and Gaza Strip Law (Jurisdictional Powers and Other Provisions) ((Legislative Amendments), 5756-1998 [sic];

²⁵ Amendment No. 64

“Accompanying Service” -	A service as set out in the First Annex to the License, provided on the basis of a Basic Telephone Service, which by its nature can only be provided by the provider of the basic service;
“Added Value Service”-	A service provided based on a Basic Telephone Service, which by its nature can also be granted by another licensee who is not the supplier of the basic service; for the purposes of the services of the Licensee, such service as set out in the First Annex of the License;
“Infrastructure Service” -	an Interconnection or the ability of Use given to another licensee, a Franchisee or to a broadcast licensee;”
“Wireline Domestic Telecommunications Services” -	Infrastructure Service, transmission, data communications and telephony services;
“The Licensee’s Services” -	MRT Services, Telecommunications Services and other services that the Licensee is entitled to provide to its subscribers, to other licensees, to broadcast licensees, to Franchisees and to the Security Forces under this License;
“MRT Services” -	Telecommunication Services provided through the MRT Terminal Equipment and through the MRT System;

“Control” -

The ability to direct the activity of a corporation, either alone or jointly with others, either directly or indirectly, including the ability that derives from the Articles of the corporation, by virtue of an agreement, either written or oral, by virtue of holding the Means of Control in the corporation or in another corporation or which derives from another source, and excluding the ability deriving solely from holding the office of director or any other office in the company; any person controlling a subsidiary company or another corporation held directly by him/her, will be deemed as controlling another corporation, controlled by the corporation which is held directly, as aforesaid; it should be presumed that an individual or corporation shall control the corporation if one of the following conditions exist:

- A. If he or it holds, either directly or indirectly, fifty percent (50%) or more of any Means of Control in the corporation;
- B. If he or it holds, either directly or indirectly, a percentage of any Means of Control in the corporation which is the greatest part in relation to the holdings of the other Interested Parties in the corporation.
- C. If he or it has the ability to prevent taking business decisions in the corporation, with the exception of decisions in the matter of issuance of means of control in a corporation or ²⁶decisions in the matters of sale or liquidation of most businesses of the corporation, or fundamental change of these businesses;

“The Minister” -

The Minister of Communication, including a person to whom the Minister has delegated his authority in the matter of this License, either in whole or in part;

“The Engineering Plan” -

The Engineering Plan, including the Maintenance Organization and Grade of Services for the Subscribers, attached in the Appendices of the Second Annex to the License;

“Numbering Plan” -

As defined in section 5A(b) of the Law;

“Basic Tariff Basket” -

A tariff for a basic MRT service package which includes the following payments only:

- 1) One-time connection fees to the MRT system, as set out in Paragraph 74.1(a);
- 2) A fixed monthly payment;
- 3) Payment for air time.

²⁶ Amendment No, 52

1.2 Words and expressions in the License that are not defined in Paragraph 1.1, will be interpreted as in the Law, Ordinance and Regulations which have been enacted in accordance with them, The Law of Interpretations, 1981, or as specified in appropriate paragraphs in the License, unless a different meaning is implicit in the text or in its context.

2. **Paragraph Headings**

The paragraph headings in this License are provided for ease of reading only, and they must not be used for purposes of interpretation or explanation of the content of one or all of the Terms of the License.

3. **The “Blue Pencil” Principle**

Revocation or a decision in the matter of the nullification of a condition of this License or a part thereof will only apply to that condition or the part thereof, as the case may be, and they themselves will not prejudice the binding validity of the License or any other condition it contains.

Section B - Legal and Administrative Provisions

4. Observation of Laws and Provisions

4.1 In all matters pertaining to the establishment of the MRT network, its subsistence, operation and maintenance and also for the provision of MRT services through it, the Licensee will act in accordance with the instructions of any law, and without derogating from the generality of the above, will strictly observe the following:

- 1) The instructions of the Telecommunication Law and the regulations pursuant thereto;
- 2) The Wireless Telegraphy Ordinance and the regulations pursuant thereto;
- 3) Administrative instructions;
- 4) International conventions to which Israel is a signatory, in the matter of telecommunications and radio;
- 5) Any other law or convention applicable to telecommunication and radio, even though they have become valid after the award of the License.

4.2 The Licensee will act in accordance with the laws and provisions as set out in Paragraph 4.1 according to their validity from time to time during the License Period, including the remedies for breaching them, and they will be deemed to be an integral part of the Terms of the License.

5. The Obligation of Permit according to all other Laws

The award of this License does not exempt the Licensee from the obligation to obtain, for execution of the License, any License, permit, approval or consent according to all other laws.

6. Contradiction between the License Provisions

In any case of apparent contradiction between the provisions of the License, the Minister will decide on the interpretation of the provisions, or how to settle the contradiction between them, after the Licensee has been given an opportunity to voice its arguments.

Chapter B - The License - Its Scope, Validity and Revocation

Section A - The Scope of the License and the License Period

7. The Scope of the License

- 7.1 The Licensee is permitted, according to this License and subject to all its instructions and conditions, to establish, sustain, maintain and operate an MRT System, and through it provide MRT services; for this purpose, the Licensee is permitted to do the following:
- a) To establish, sustain, maintain and operate Cellular Radio Bases and connect them to MRT exchanges, and also to connect between MRT exchanges through wireless or physical transmission channels;
 - b) To connect the MRT System to another Public Telecommunication system in Israel;
 - c) To enter an agreement with subscribers for the provision of MRT Services;
 - d) To supply MRT Terminal Equipment to subscribers;
 - e) To supply its customers with MRT services as set forth in the First Annex to the License;
 - f) To supply its customers with services that were approved to the Licensee in accordance with Article 67C of the License.²⁷
- 7.1a The Licensee's services to its subscribers will be provided solely through MRT terminal equipment.
- 7.2 The Licensee is not permitted to provide any MRT or other Telecommunication Service that it is not explicitly permitted to provide within the framework of this License or another License awarded it by the Minister.
- 8. ²⁸No Exclusivity**
- 8.1 The Licensee shall not have any form of exclusivity whatsoever in the provision of its services.
- 8.2 The Minister may at any time grant a license for the provision of MRT Services to additional operators.**
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²⁷ Amendment No. 64

²⁸ Amendment No. 14

8.3 Should the Minister publish a tender for the provision of MRT Services, the Licensee may submit a bid in the tender, however, the Minister may determine, as part of the conditions of such tender, that if the Licensee wins the tender, the receipt of a license shall be conditional upon the Licensee transferring its MRT System to another as the Minister may order, and on such conditions as he may prescribe, and that the Licensee shall cease to provide MRT Services.

9. The License Period

9.1 The validity of this License is for a period of ten (10) years, that will begin on the day the License is awarded (hereinafter "The License Period").

9.2 The License Period may be extended by six (6) additional years in accordance with Paragraph 10 (hereinafter "The Additional Period").

9.3 This License may be renewed for one or more Additional Periods of six (6) years, over and above the License Period or the Additional Period, in accordance with Paragraph 11.

9.4 During the entire License Period or the Additional Period or with renewal of the License, the License will be subject to the authority of the Minister in accordance with Paragraphs 13 to 15 regarding changes to the License, its limitation, suspension or revocation.

9.5 ²⁹Notwithstanding the above ³⁰in the context of extension of the License, following the winning by the Licensee of Tender No. 1/01, the validity of this License shall be for a period of twenty (20) years that will begin on 19 Shvat 5762 (1 February 2002).

10. Extending the License Period

10.1 The Minister may, at the Licensee's request, extend the License Period by six (6) additional years, after examining the following:

(A) The Licensee has observed the provisions of the Law, the Ordinance, the regulations therein and the provisions of the License;

²⁹ Amendment No. 13

³⁰ Amendment No. 14

- (B) The Licensee has acted to constantly improve the MRT Services, their scope, availability and quality and also the technological updating of the MRT System, and there was no act or omission in the Licensee's activity that harmed or limited competition in the MRT branch;
 - (C) The Licensee is able to continue to provide MRT Services of a high standard and is able to implement the required investments in the technological updating of the MRT System for improving the scope of the MRT Services, their availability and quality;
 - (D) The Licensee has efficiently used the frequency bands allocated to it, compared to alternative applications;
- 10.2 The Licensee will submit its request for extending the License Period in the course of the forty-five (45) days that precede the period of the eighteen (18) months prior to the termination date of the License Period.
- 10.3 The Licensee will append the following to its request:
- (A) A report summarizing all the annual reports submitted by the Licensee according to this License between the commencement date of the License and the submission date of its request;
 - (B) A comparison of the data in the report with regard to each year with the data of the preceding year, and also explanations of extraordinary variations in the data;
 - (C) A review of the means, actions and investments undertaken or implemented by the Licensee for the improvement of the quality of the MRT Services, their scope and availability, for the development and technological updating of the MRT System.
- 10.4 The Concluding Report in accordance with Paragraph 10.3 will contain precise up-to-date details and will be drafted in the form of an affidavit.
- 10.5 For the purpose of examining the Licensee's request to extend the License Period, the Minister may require the Licensee to produce, during a period determined in the request and in a manner that the Minister will determine, all information and every document, and without derogating from the generality of the above, the Minister may:
- (A) Require the Licensee to append to the Concluding Report any document to verify the data detailed in it, to complete the report or to provide any additional datum it does not contain;
 - (B) To ask the Licensee to appear before him and answer questions or present documents in its possession or under its control that are related to the data in the report;
 - (C) To require the Licensee to submit to him an Engineering Plan that describes its plans for the technological updating of the MRT System during the Additional Period.

- 10.6 The Licensee will comply with every requirement or request as set out in Paragraph 10.5; should the Licensee be required to appear before the Minister, either the chairman of the board of the company holding the License, the General Manager of the company, or a person authorized in writing for this purpose, will appear.
- 10.7 Should the Licensee not comply with the request or requirement as set out in Paragraph 10.5, on two occasions at least, the Minister may reject its request to extend the validity of the License.
- 10.8 The Minister will inform the Licensee of his decision in the matter of its request to extend the validity of the License no later than one year before the termination of the License Period.
- 10.9 The conditions of this License will apply to the Additional Period, including and changes in them.
- 10.10 The instructions of Paragraph 100 in the matter of confidentiality will apply, with the required modifications, to information provided by the Licensee in accordance with the instructions of this paragraph, to the Minister or his appointee.
- 11. Renewing the License**
- 11.1 At the end of the License Period or the Additional Period, the Minister may, at the Licensee's request, renew the License for one or more Additional Periods of six (6) years, as he decides.
- 11.2 The Licensee will submit its request for renewal of the License Period in the course of the forty-five (45) days that precede the period of the eighteen (18) months prior to the termination date of the License Period or of the Additional Period.
- 11.3 The Minister will inform the Licensee within thirty (30) days from the date its request for renewal of the License was received, whether he intends to take steps to renew the License and the required proceedings for doing so, including proceedings and considerations in accordance with Paragraph 10, or that proceedings will be undertaken for a tender for the provision of the services which are the subject of this License.

12. Termination of the License Period

- 12.1 If the License Period has ended in accordance with Paragraph 9.5 or the Additional Period in accordance with Paragraph 10.1 or the License Period after its renewal in accordance with Paragraph 11.1, and the License has not been extended or renewed, the Minister may instruct the Licensee to continue operating the MRT System for a fixed period (hereinafter "the Service Termination Period") until a License is awarded to another by law for the provision of the services which are the subject of this License (hereinafter "the Alternative Licensee"), and the proceeding have been completed for transfer of the system according to it, or until a License is awarded to another by law for alternative services; the Service Termination Period will, in any event, be no greater than two years from the date of expiry of the License.
- 12.2 During the Service Termination Period, and no later than ten (10) months from the day on which a License was awarded to an Alternative Licensee, the Licensee and the Alternative Licensee will enter negotiations for the acquisition of the MRT System at its economic worth and the assignment of rights and obligations of the subscribers to the Alternative Licensee; should the said Licensees not reach complete agreement within ten (10) months as stated above, the price will be determined by an arbitrator appointed by the Chairman of the Chartered Accountants Association, whose decision will be final.

Section B - Changing the Conditions of the License, its Enforcement and Revocation

13. Changing the Conditions of the License

- 13.1 The Minister may change the conditions of the License, add to them or detract from them, in accordance with the provisions of Paragraph 4 of the Law and, *inter alia*, if he finds that one of the following exists:
- (A) A change has occurred in the suitability of the Licensee to implement the actions and services that are the subject of the License;
 - (B) A change in the License is required in order to ensure effective and fair competition in the Telecommunication field;
 - (C) A change in the License is required in order to ensure the Grade of Service provided in accordance with it;
 - (D) Changes in Telecommunication technology justify modifying the License;
 - (E) Changes have occurred in the electromagnetic spectrum needs that justify, in the Minister's opinion, changes in the License;

- (F) Considerations of public interest justify modifying the License;
- (G) A change in government policy in the telecommunications sector demands a modification of the License;
- (H) A change is required in the License by reason of its breach by the Licensee, as set out in Paragraph 15.

13.2 The Minister will act in accordance with his authority, as set out in Paragraph 13.1, after giving the Licensee a reasonable opportunity to voice its claims.

14. Revocation of the License

14.1 The Minister may revoke the License before the end of its period if one or more of the causes set out in Paragraph 6 of the Law exists, or in any one of the following cases:

- (A) The Licensee did not disclose required information to the Tender Committee or gave it incorrect information;
- (B) The Licensee was required and refused to give the Minister or his appointee required information that is in its possession, and which it had to divulge by virtue of the provisions of this License or by law, or the Licensee gave false information to the Minister or his appointee;
- (C) The Licensee has not observed the instructions of the Law, the Ordinance or the regulations therein;
- (D) The Licensee has committed a substantial breach of the License conditions and without derogating from the generality of the above, including the following:
 - (1) The Licensee does not comply with the coverage or quality requirements set out in this License;
 - (2) The Licensee has not paid all the royalties and frequency fees, or one of these, on the date stipulated in this License;
- (E) The Licensee has not commenced provision of services in accordance with the stipulations of this License or has illegally ceased, limited or delayed any one of its services;
- (F) The Licensee has not invested the required sums in the establishment and operation of the MRT System at the coverage and quality standards determined by the Ministry in accordance with the written undertaking (Appendix I);
- (G) Should one or more of the attributes that made the Licensee fit for participation in the Tender for MRT services or to be a Licensee, cease to exist, including the following:
 - (1) The Licensee has ceased to be a company registered in Israel;

- (2) Cancelled³¹
- (3) The majority of the directors of the company that is the Licensee are not Citizens or Residents of Israel;
- (4) The General Manager of the company that is the Licensee or a director therein, has been convicted of an infamous offense and continues to serve in office;
- (5) The General Manager of the company that is the Licensee is not a Citizen or Resident of Israel ;
- (6) Prior to the expiry of five (5) years from the date of the award of the License, the voting rights of the MRT Operator or of a Controlling Corporation in an MRT Operator (hereinafter, with regard to this clause - "Controlling Corporation"), at the general meeting or the right to appoint a director or general manger in the company that is the Licensee, decreased to less than twenty-five percent (25%); the rate of holdings of an MRT Operator or of a Controlling Corporation will be calculated according to the provisions of Paragraph 23.6; However, the holdings of an MRT Operator or a Controlling Corporation that has direct or indirect holdings in the Licensee will be taken into account, with regard to this clause, only if all of the following exist:
- (1) Each body in the chain of holdings is controlling the body held by it as aforesaid, down to the body that directly holds the Licensee;
 - (2) The rate of holding in the Licensee of the MRT Operator or a Controlling Corporation, either directly or indirectly, will not be less than twenty-five percent (25%);
 - (3) The MRT Operator undertook to the Licensee to put at its disposal all the information in its possession that is required for the establishment and operation of the MRT System, for the provision of MRT Services, their marketing and sale.
- (7) Subject to what is set out in Clause 9, one of the following exists in the Licensee:
- The Licensee, an Office Holder or Interested Party in the company that is the Licensee or an Office Holder in an Interested Party thereof is an Interested Party in a Competing MRT Operator without obtaining permission to do so from the Minister as set out in Paragraph 23.8, or has not fulfilled one of the conditions included in the permit it obtained from the Minister as stated above;
 - An Office Holder, Interested Party or an Office Holder in an Interested Party in the company that is the Licensee is an Office Holder in a Competing MRT Operator or in an Interested Party in a Competing MRT Operator, without having obtained permission to do so from the Minister; as stated in Paragraph 23.2, or has not fulfilled one of the conditions included in the permit it obtained from the Minister as stated above;

³¹Amendment No. 31

- (8) If one of the following exists in an Interested Party in the company that is the Licensee, that is a trust fund, an insurance company, an investment company or a pension fund:
- It holds, either directly or indirectly, more than five percent (5%) of any Means of Control in a Competing MRT Operator, without having obtained permission to do so from the Minister;
 - It holds, either directly or indirectly, more than five percent (5%) of any Means of Control in a Competing MRT Operator in accordance with a permit from the Minister, and in addition it has a representative or appointee who is an Office Holder in a Competing MRT Operator, unless it has been legally required to do so;
 - It holds, either directly or indirectly, more than ten percent (10%) of any Means of Control in a Competing MRT Operator, even if it has received permission to hold up to ten percent (10%) of the said Means of Control;
- (8a) If one of the following exists in an Interested Party in a Competing MRT Operator, that is a trust fund, an insurance company, an investment company or a pension fund:
- It holds, either directly or indirectly, more than five percent (5%) of any Means of Control in the Licensee, without having obtained permission to do so from the Minister;
 - It holds, either directly or indirectly, more than five percent (5%) of any Means of Control in the Licensee in accordance with a permit from the Minister, and in addition it has a representative or appointee who is an Office Holder in the Licensee, unless it has been legally required to do so;
 - It holds, either directly or indirectly, more than ten percent (10%) of any Means of Control in the Licensee, even if it has received permission to hold up to ten percent (10%) of the said Means of Control;
- (9) The Licensee, an Office Holder or an Interested Party in the Licensee, or an Office Holder in an Interested Party in the Licensee, controls a Competing MRT Operator, is controlled by a Competing MRT Operator, by an Office Holder or an Interested Party in a Competing MRT Operator, by an Office Holder in an Interested Party in a Competing MRT Operator, or by a person or corporation that controls a Competing MRT Operator;
- (H) The Means of Control in the Licensee or control of it have been transferred in contravention of Paragraph 21;

Notwithstanding the above-mentioned, a transfer or purchase of a percentage of the Means of Control in the Licensee, either directly or indirectly, that requires consent in accordance with Articles 21.1 or 21.3 (other than a transfer or purchase that results in a transfer of control), without first receiving the Minister's prior written consent as required according to these articles, shall not constitute a cause to revoke the License if the Minister's consent was given in writing in advance for a public offering of the Tradable Means of Control or for registration for trading of the Tradable Means of Control, on the securities exchange in Israel or overseas, under which the Means of Control in the Licensee may be transferred in a percentage that requires consent in accordance with Articles 21.1 or 21.3 (other than a transfer or purchase that results in a transfer of control), and it shall all be subject to the conditions to be set by the Minister when he gives his consent. The contents of this article are in addition to and do not derogate from the provisions of Article 21.8 of the License. For the purpose of this Article, "Tradable Means of Control"- as defined in Article 21.5 of the License.³²

- (I) There was an act or omission in the Licensee's activity that harmed or limited competition in the MRT branch;
 - (J) A receiver or temporary liquidator was appointed for the company that is the Licensee, an order was issued for its winding-up or it decided to be voluntarily wound-up;
 - (K) Cancelled;
 - (L) The Licensee requested revocation of the License.
 - (M) The Licensee breached on of the provisions in Article 22A.³³
- 14.1 A. With regard to sub-clause 14.1 (e³⁴), limitation of service due to technological circumstances that is implemented after an advance written and reasoned notice was sent to the Director and after its approval by the Director, will not be viewed as an illegal limitation of service.
- 14.1 B. With regard to sub-clause 14.1 (G) (6), "MRT Operator" is an operator of an MRT system abroad, through which MRT services are provided to at least five hundred thousand (500,000) subscribers.
- 14.2 Should the Minister consider that the cause of revocation, under the circumstances of the matter, does not require revocation of the License, the Minister will give the Licensee a fair opportunity to correct the act or omission that constitute a cause for revocation.

³² Amendment No. 25

³³ Amendment No. 31

³⁴ Amendment No. 4

- 14.3 The Minister will give prior notice to the Licensee regarding his intention of revoking the License, and in the notice will note the cause and enable the Licensee, within a period determined in the notice, to voice its claims regarding the cause of revocation, either in writing or orally, according to circumstances.
- 14.4 The Minister may invite the Licensee to appear before him and he is permitted to require the Licensee to answer questions, present documents or to provide him with information and documents insofar as this is required for the purpose of clarifying the cause of revocation.
- 14.5 Should the Licensee be required or invited as stated above, it will fulfill the requirement or respond to the invitation on the set date.
- 14.6 Should the Licensee not respond, at least twice, to the Minister's requirement or invitation within the period determined by the Minister in the requirement or invitation, the Minister may revoke the License through a notice sent to the Licensee (hereinafter "Notice of Revocation").
- 14.7 In the Notice of Revocation the Minister will determine the date on which revocation of the License will take effect, and he may instruct the Licensee to continue to provide the services in accordance with this License until a License is awarded to another, or until the appointment of a trustee, or until the appointment of a receiver by law for management and operation of the MRT System, as the case may be.
- 14.8 The Licensee will continue to provide the services up to the date set by the Minister in his notice and will observe the instructions of this License and every instruction given to it by the Minister in this matter.

15. Other Remedies

In addition to his authority to revoke the License as set out in Paragraph 14, the Minister may, if the causes set out in Paragraph 14.1 exist, limit or suspend the License, or change its conditions or foreclose the guarantees given by the Licensee to ensure the fulfillment of the License conditions, wholly or in part; the detailed proceedings in the matter of revocation of the License will be applied, with the necessary changes, to limitation of the License, its suspension, and the foreclosure of the guarantees.

Chapter C: Ownership, Assets and Means of Control

Section A: Limitations in Respect of the Transfer of the License and its Assets

16. Deleted³⁵.

17. Ownership of the MRT System

17.1 The Licensee shall be the owner and operator of the MRT System.

17.2 Despite the provisions of Paragraph 17.1, the Director may permit the Licensee to make use of Another Operator's physical or wireless transmission links, in order to connect between Cellular Radio Bases, between a Cellular Radio Base and an MRT exchange of the Licensee or of Another Licensee, between the MRT exchanges of the Licensee and each other, between an MRT exchange of the Licensee and an MRT exchange of a Competing MRT Operator, or between an MRT exchange and a Public Telecommunication Network or an International Communication System.

18. Limits on the Transfer of License Assets

18.1 The Licensee is not allowed to sell, lease or mortgage any of the assets that serve for the implementation of the License (hereinafter: "the License Assets"), unless given the Minister's prior written consent, in accordance with the terms set by the Minister.

18.2 Without derogating from the generality of what is set out in Paragraph³⁶ 18.1, the Minister will give his approval to give title to rights in the License assets to a third party, if he is satisfied that the Licensee has ensured that in any event, the realization of the rights by the third party will not cause any damage to the provision of services according to this License, as long as the Licensee must provide these services according to the provisions of this License.

³⁵ Amendment No. 64

³⁶ Amendment No. 64

- 18.3 Despite what is stated in Paragraph 18.1, the Licensee may mortgage any of the License's assets in favor of a banking corporation that is legally active in Israel, for the purpose of obtaining bank credit, on condition that advance notice of the intended mortgage was given to the Director, and in the mortgage agreement there is a clause that ensures that realization of the rights by the banking corporation will not cause any damage to the provision of services in accordance with this License; with regard to this clause, "Banking Corporation" - as defined in the Banking Law (Licensing) 1981, with the exception of "External Corporation" as defined in the same Law.
- 18.4 The provisions of Paragraph 18.1 will not apply to the sale of items of equipment during an upgrading process, including the sale of equipment, as aforesaid, as part of a trade-in.
- 19. Agreement with another**
- 19.1 In the event that the Licensee wishes to provide any of the services in accordance with the License, wholly or partly, through another party on its behalf, it will request the Director's approval; the Licensee will append to its request the agreement³⁷ between it and the other party; the provision of this Paragraph will not apply to an agreement between the Licensee and a distributor of MRT Terminal Equipment or whoever acts on behalf of the Licensee for the marketing of its services.
- 19.2 The Director may approve the request, reject it or make his approval contingent on conditions that must be fulfilled, including the amendment of the agreement; the Director will consider, *inter alia*, to what extent the terms of the agreement with the other party ensure maintaining a fair competition, the grade of service for the public, the fulfillment of the License provisions and the Licensee's obligations in accordance with it; the Director will not approve an agreement with another party that contradicts the Licensee's obligations in accordance with this License.
- 19.3 The agreement with another party will not detract from the Licensee's obligations and its responsibility for the implementation of any of the services which are the subject of this License, wholly or partly, according to the provisions of the License, and will not detract from the powers of the Minister, Director, or anyone on their behalf.

³⁷ Amendment No. 41

Section B: Means of Control - Changes and Limitations

20. Details of the Licensee

- 20.1 Details regarding the legal entity of the licensee, its incorporation, the parties controlling it, those who have considerable influence over it, interested parties in it, officers in it are listed in Annex A of the license; the licensee shall provide the director annually at the beginning of March, with an updated Annex A.³⁸
- 20.2 The Licensee will report to the Director in writing about any change in the information included in Appendix A, including any transfer or acquisition of control or of five percent (5%) or more of the Means of Control in the company that is the Licensee, or a change in the appointment of a Director or a General Manager; the same will be reported within fourteen (14) days from the date of the change.

21. Transfer of Means of Control

- 21.1 A holding of ten percent (10%) or more of any of the Means of Control in the Licensee will not be transferred, either directly or indirectly, either all at once or in parts, unless given the Minister's prior written consent.
- 21.2 Any of the said Means of Control, or a part of them, in the Licensee, may not be transferred in any way, if as a result of the transfer, control in the Licensee will be transferred from one person to another, unless given the Minister's prior written consent.
- 21.3 No control shall be acquired, either direct or indirect, in the Licensee, and no person, whether on his/her own or together with his/her relative or with those acting with him/her on a regular basis, shall acquire in it ten percent (10%) or more of any of the Means of Control in the Licensee, whether all at once or in parts, unless given the Minister's prior written consent.
- 21.4 Deleted³⁹
- 21.5 ⁴⁰Despite the provisions of sub-clauses 21.1 and 21.3 above, should there occur a transfer or purchase of a percentage of Tradable Means of Control in the Licensee requiring consent under clauses 21.1 and 21.3 (other than a transfer of purchase that results in a transfer of control), without the Minister's consent having been sought, the Licensee shall report this to the Minister in writing, and shall make an application to the Minister to approve the said transfer or purchase of the Means of Control in the Licensee, within 21 days of the date on which the Licensee became aware of such.

³⁸ Amendment No. 41

³⁹ Amendment No. 52

⁴⁰ Amendment No. 3

In this Clause 21, **“Tradable Means of Control”** – Means of Control, including Global or American Depositary Shares (GDR’s or ADR’s), or similar certificates, registered for trading on the securities exchange in Israel or overseas, and offered to the public by prospectus, or held by the public in Israel or overseas.

- 21.6 Neither the entry into an underwriting agreement relating to the issue or sale of securities to the public, the registration for trading on the securities exchange in Israel or overseas, nor the deposit or registration of securities with a registration company or with a depository agent or a custodian for the purpose of registration of GDRs or ADRs or similar certificates relating to the issue or sale of securities to the public shall in and of themselves be considered as a transfer of Means of Control in the Licensee⁴¹.
- 21.7 (a) Irregular Holdings shall be noted in the Licensee’s members register (the list of shareholders) stating the fact that they are irregular, immediately upon the Licensee’s becoming aware of this, and a notice of the registration shall be given by the Licensee to the holder of such Irregular Holding and to the Minister.
- (b) Irregular Holdings, noted as aforesaid in clause 21.7(a), shall not provide the holder with any rights, and shall be “dormant shares” as defined in Section 308 of the Companies Law 5759-1999, except in the case of the receipt of a dividend or any other distribution to shareholders (especially the right to participate in an allotment of rights calculated on the basis of holdings of Means of Control in the Licensee, although holdings accumulated as aforesaid shall also be considered as Irregular Holdings), and therefore no action or claim of the activation of a right by virtue of the Irregular Holdings shall have any force, except in the case of the receipt of a dividend or any other distribution as aforesaid.

Without derogating from the generality of the above:

- (1) A shareholder who takes part in a vote during a meeting of shareholders shall advise the Licensee prior to the vote, or in the case of documentary voting on the voting document, whether his holdings in the Licensee or his voting require consent under clauses 21 and 23 of the License or not; where a shareholder does not so advise, he may not vote and his vote shall not count.

⁴¹ Amendment No. 4

- (2) No director of the Licensee shall be appointed, elected or transferred from office by virtue of an Irregular Holding; should a director be appointed, elected or transferred from office as aforesaid, the said appointment, election or transfer, as the case may be, shall be of no effect.
- (3) Irregular Holdings shall not provide voting rights in the general meeting;

For the purposes of this clause:

“Irregular Holdings” – the holding of Tradable Means of Control without the Minister’s consent as required under clause 23, and all holdings of a person holding Tradable Means of Control acting contrary to the provisions of clause 24; for so long as the Minister’s consent under clause 21 has been sought but not yet granted, or whilst there is a situation of breach of the provisions of clauses 23 or 24.

- (c) The provisions of clause 21.7 shall be included in the Articles of Association of the Licensee, including the provisions of clause 21.9, *mutatis mutandis*.

- 21.8 For so long as the Articles of Association of the Licensee provide as set out in clause 21.7, and the Licensee acts in accordance with the provisions of clauses 21.5 and 21.7, and for so long as none of the holdings of ⁴²Founding Shareholders or their Substitutes reduces to less than ⁴³44 ⁴⁴26⁴⁵% of all Means of Control in the Licensee immediately prior to the listing of the shares for trade, and for so long as the Articles of Association of the Licensee provide that a majority of the voting power in the general meeting of the Licensee may appoint all members of the Board of Directors of the Licensee, other than external directors required by any law and/or the relevant Exchange Rules, the Irregular Holdings shall not, in and of themselves, give rise to a cause for the cancellation of the Licensee.

For the purpose of this article: "Founding Shareholders or their Substitutes"- Matbit Telecommunications Systems Ltd., Advent Investment Pte Limited, Matav Investments Ltd and Tapuz Cellular Systems limited Partnership as well as any other entity that one of them has transferred the Means of Control in the Licensee to, with the Minister's consent, before 4.7.2004 (each of the above entities shall be termed "Founding Shareholder"), as well as any other entity that a Founding Shareholder will transfer Means of Control in the Licensee to after 4.7.2004, provided that the Minister gave his written consent that the transferee be considered for this matter as the Founding Shareholder's substitute from the date to be determined by the Minister, including anyone that is an Israel Entity as defined in Article 22A.2, that purchased Means of Control from the Licensee and received the Minister's approval to be considered a founding shareholder or their substitute from the date set by the Minister⁴⁶. Such consent under this article does not exempt the Licensee from the obligation to receive the Minister's consent for every transfer of the Means of Control in the Licensee that requires the Minister's consent in accordance with any other article in the Licensee.⁴⁷

⁴² Amendment No. 25

⁴³ Amendment No. 9

⁴⁴ Amendment No. 28

⁴⁵ Amendment No. 31

21.9 The provisions of clauses 21.5 through 21.8 shall not apply to the founding shareholders or their substitutes.⁴⁸.

22. Placing a Charge on Means of Control

Any shareholder in the company that holds the License, or a shareholder in an Interested Party in the same company, is not allowed to encumber his/her shares, in a way that the realization of the charge would cause a change in the ownership in ten percent (10%) or more of any of the Means of Control in the Licensee, unless the charge agreement includes a constraint, according to which the charge cannot be realized without prior consent, in writing, by the Minister.

22A. Israeli Requirement and Holdings of Founding Shareholders or their Substitutes⁴⁹

22A.1. The total cumulative holdings of the "Founding Shareholders or their Substitutes", as defined in Article 21.8, (including anyone that is an "Israeli Entity" as defined in Article 22.2A below, that purchased Means of Control from the Licensee and received the Minister's approval to be considered a founding shareholder or their substitute from the date set by the Minister), and are bound by an agreement for the fulfillment of the provisions of Article 22A of the License (in this Article they will all be considered "Founding Shareholders or their Substitutes") shall not be reduced to less than 26% of each of the Means of Control in the Licensee.

22A.2 The total cumulative holdings of "Israeli Entities", one or more, that are considered as one of the Founding Shareholders or their Substitutes, from the total holdings of Founding Shareholders or their Substitutes as set forth in Article 22A.1 above, shall not be reduced at all times to less than 5% of the total issued share capital and from each of the Means of Control in the Licensee. For this matter, the issued share capital of the Licensee shall be calculated by deducting the number of "Dormant Shares" held by the Licensee .

⁴⁶ Amendment No. 31

⁴⁷ Amendment No. 25

⁴⁸ Amendment No. 31

⁴⁹ Amendment No. 31-Amendment No. 31 will come into effect upon completion of all of the obligations set forth in article 22A and no later than 30 June 2005, in accordance with the Ministry of Communications document 62/05-4031 dated 13 March 2005

In this Article-

"Israeli Entity"- for an individual-an Israeli citizen or resident of Israel, For a corporation- a corporation that was incorporated in Israel and an individual that is a citizen and a resident of Israel, controls the corporation either directly or indirectly, as long as the indirect control shall be only through a corporation that was incorporated in Israel, one or more. However, for the matter of indirect holdings, the Prime Minister and the Minister of Communications may approve holdings through a corporation that has not been incorporated in Israel, as long as the corporation does not directly hold shares in the Licensee, and only if they are convinced that this will not derogate from the provisions of this article. For this matter, "Israeli citizen"- as defined in the Nationality Law, 5712-1952; "resident"-as defined in the Inhabitants Registry Law, 5725-1965.

For this matter, **"Dormant Shares"** - as defined in Article 308 of the Companies Law, 5759-1999.

- 22A.3 At least one tenth (10%) of the members of the Board of Directors of the Licensee shall be appointed by the Israeli Entities as set forth in Article 22A.2. Notwithstanding the above-mentioned, for this matter- if the Board of Directors of the Licensee shall consist of up to 14 members – at least one director shall be appointed by the Israeli entities as set forth in Article 22.2A above, if the Board of Directors of the Licensee shall consist of between 15 and 24 members-at least 2 directors shall be appointed by the Israeli entities as set forth in Article 22.2A above and so on and so forth.
- 22A.4 The Licensee's Board of Directors shall appoint from among its members that have security clearance and security compatibility to be determined by the General Security Service (hereinafter: "Directors with Clearance") a committee to be designated "the Committee for Security Matters", or CSM.

The CSM shall consist of at least 4 Directors with Clearance including at least one External Director. Security matters shall be discussed, subject to Article 22A.5, solely by the CSM. A resolution that was adopted or an action that was taken by the CSM, shall have the same effect as a resolution that was adopted or an action that was taken by the Board of Directors and shall be discussed by the Board of Directors only if necessary in accordance with Article 22A.5 and subject to Article 22A.5.

In this article-"security matters"-as defined in the Bezeq Order (Determination of Essential Service Provided by "Bezeq", the Israeli Telecommunications Company Ltd), 5757-1997, as of March 9, 2005.

22A.5 Security matters that the Board of Directors or the Audit Committee of the Licensee shall be required to consider in accordance with the mandatory provisions of the Companies Law, 5759-1999, or in accordance with the mandatory provisions of any other law that applies to the Licensee shall be discussed, if they need to be discussed by the Board of Directors or the Audit Committee, only in the presence of Directors with Clearance. Directors that do not have security clearance shall not be allowed to participate in this Board of Directors or Audit Committee meeting and shall not be entitled to receive information or to review documents that relate to this matter. The legal quorum for such meetings shall include only Directors with Clearance.

The Licensee may set out in its Articles of Association that an Office Holder, who in the capacity of his position or based on the provisions of the law or the Articles of Association, should have received information or participate in security matter meetings and this was denied him due to Article 22A.5, will be released from any liability for any claim of breach of duty of care towards the Licensee, if the breach of duty of care was a result of his or her inability to participate in the meetings or receive information.

22A.6 The shareholders at a general meeting shall not be entitled to assume, delegate, transfer or exercise any of the authorities granted to another organ in the company, regarding security matters

22A.7 (a) The Minister shall appoint an observer for the Board of Directors and committee meetings, that has security clearance and security compatibility that will be determined by the General Security Services.

(b) The observer shall be a government employee, qualified to serve as a director, in accordance with Chapter C of the Government Companies Law, 5735-1975.

(c) In addition, and without derogating from any duty imposed on him by any law, the observer shall be bound by confidentiality towards the Licensee, except as the matter may be required to fulfill his responsibilities as an observer. The observer shall not act as an observer or in any other capacity for any entity that deals with the provision of telecommunication services and directly competes with the Licensee, and shall refrain from any conflict of interest between his position as an observer and between the Licensee, excluding conflicts of interest that result from his being a government employee that is fulfilling his responsibilities as an observer with the Licensee. The observer shall undertake towards the Licensee not to serve as an observer or an office holder, and not to fulfill a position or be employed, directly or indirectly by any entity that directly competes with the Licensee or has a conflict of interest with the Licensee, excluding a conflict of interest that results from his being a government employee that is fulfilling his responsibilities as an observer with the Licensee throughout the duration of his position as an observer with the Licensee and for eighteen months after he completes this term.

In any case of a dispute regarding a conflict of interest of the observer, the matter shall be decided by the State Attorney General or a person on his behalf.

(d) Notices to Board of Director and committee meetings, including the CSM, shall be sent to the observer and he shall be entitled to participate as an observer in each such meeting.

(e) The observer's entitlement to receive information from the Licensee, shall be the same as a director. If the Licensee believes that certain information that is sensitive business information is not required by the observer in order to fulfill his duties, the Licensee may delay delivery of such information to the observer and shall inform him accordingly. If the observer believes that he should receive such information, the matter shall be decided by the head of the General Security Services.

(f) If the observer believes that the Licensee adopted or is about to adopt a resolution regarding security matters, contrary to the provisions of the License, contrary to Article 13 of the Law or contrary to the provisions of Article 11 of the General Security Services Law, 5762-2002, he shall immediately notify the Licensee in writing. Such a notice shall be sent to the chairman of the Board of Directors and to the chairman of the CSM and adequate time shall be given, under the circumstances of the case, to remedy the breach or to change the resolution, if possible.

22A.8 The provisions of Article 22A of the License shall be adopted in the Articles of Association of the Licensee.

Section C: Cross-Ownership and Conflict of Interests

23. Prohibition of Cross-Ownership

23.1 The Licensee, an Office Holder or an Interested Party in the Licensee, as well as an Office Holder in an Interested Party in the Licensee, shall not hold, either directly or indirectly, five percent (5%) or more of any Means of Control in a Competing MRT Operator, and shall not serve as an Office Holder in a Competing MRT Operator or in an Interested Party in a Competing MRT Operator; for this matter, "Holding" includes holding as an agent.

23.2 Notwithstanding the provisions of Paragraph 23.1, the Minister may, based upon written request, permit an Office Holder in the Licensee to serve as an Office Holder in an Interested Party in a Competing MRT Operator, or permit an Office Holder in an Interested Party in the Licensee to serve as an Office Holder in a Competing MRT Operator or in an Interested Party in a Competing MRT Operator, if he is satisfied, that this will not harm the competition in MRT Services; the Minister may condition the granting of such permit on conditions that the Office Holder must fulfill for prevention of harm to the competition as aforesaid.

- 23.3 Notwithstanding the provisions of Paragraph 23.1, an Interested Party in the Licensee, which is a trust fund, an insurance company, an investment company or a pension fund, may hold up to ten percent (10%) of the Means of Control in a Competing MRT Operator, and an Interested Party in a Competing MRT Operator, which is a trust fund, an insurance company, an investment company or a pension fund, may hold up to ten percent (10%) of the Means of Control in the Licensee, provided it does not have a representative or an appointee on its behalf among the Office Holders of a Competing MRT Operator or of the Licensee, as the case may be, unless it is required to do so by law.
- 23.4 The Licensee, an Office Holder or an Interested Party in the Licensee, as well as an Office Holder in an Interested Party in the Licensee, will not control a Competing MRT Operator, and will not cause it, by any act or omission, to be controlled by a Competing MRT Operator or by an Office Holder or an Interested Party in a Competing MRT Operator, or by an Office Holder in an Interested Party in a Competing MRT Operator, or by a person or corporation that controls a Competing MRT Operator.
- 23.5 The rate of indirect holding in a corporation will be a product of the percentage of holdings in each stage of the chain of ownership, subject to what is set out in Paragraph 23.6; for example:
- (A) 'A' holds 40% in Company 'B';
 - (B) Company 'B' holds 40% in Company 'C';
 - (C) Company 'C' holds 25% in Company 'D';
 - (D) Therefore, Company 'A' holds, indirectly, 4% of Company 'D'.
- 23.6 For the matter of this Paragraph and Paragraphs 14.1 (G) (6), (7), (8), (8a), (9) and 21.4, if a certain body (hereinafter: "the Controlling Body") controls another body that has holdings, directly or indirectly, in the Licensee (hereinafter: "the Controlled Body"), the Controlling Body, and also any other body controlled by the Controlling Body, will be attributed with the rate of holdings in the Licensee that the Controlled Body has, directly or indirectly; according to the following examples:
- A. Direct holdings:
- (1) 'A' holds 50% in Company 'B', and controls it;
 - (2) Company 'B' holds 50% in Company 'C', and controls it;
 - (3) Company 'C' holds 10% in the Licensee and does not control it;
 - (4) Therefore, notwithstanding that 'A's' holdings in the Licensee in accordance with the instructions of Paragraph 5.6 are 2.5%, 'A' and also any body controlled by 'A' will be deemed as an Interested Party holding 10% in the Licensee.
- B. Indirect holdings:
- (1) 'A' holds 50% of Company 'B' and controls it;
 - (2) Company 'B' holds 40% of Company 'C' and controls it;

- (3) Company 'C' holds 40% of Company 'D' and does not control it;
- (4) Company 'D' holds 40% of the Licensee and does not control it;
- (5) Therefore, 'A' and any body controlled by 'A' will be regarded as having a holding in the Licensee at the rate of holdings of Company 'C' in the Licensee, which is holdings of 16% (according to the method set out in Paragraph 23.5 for the calculation of the rate of indirect holdings in the absence of control), and in this manner, 'A' and any body controlled by 'A' is an Interested Party in the Licensee.

23.7 If a certain body has indirect holding in the Licensee, through two or more Interested Parties, then for the purpose of its definition as an Interested Party, and for the purpose of determining the rate of holding with regard to this Paragraph, the greatest indirect rate of holding will be taken into account, and also any rate of holding that derives from the chain of holdings through which the said holding body is attributed with the holdings of corporations controlled by it in accordance with the provisions of Paragraph 23.6; the rates of holdings that derive from two or more chains that will be taken into account as stated above, will be cumulative for the purpose of calculating the rate of holdings.

23.8 The Minister may, in response to a written request, permit an Interested Party in the Licensee to hold, either directly or indirectly, five percent (5%) or more in any of the Means of Control of a Competing MRT Operator, if the Minister is satisfied that this will not harm competition in the MRT field; ⁵⁰the Minister may condition the granting of the said permit on a condition that the Interested Party in the Licensee or competing MRT Operator is an Interested Party merely by virtue of the provisions of Article 23.6 .

24. Prohibition of Conflict of interests

The Licensee, any body in which the Licensee is an Interested Party, an Office Holder in the Licensee or an Interested Party in the company holding the License or an Office Holder in an Interested Party therein, will not be party to any agreement, arrangement or understanding with a Competing MRT Operator, or an Interested Party or an Office Holder in it, or an Office Holder in an Interested Party in a Competing MRT Operator, or any other body in which a Competing MRT Operator is an Interested Party, which are intended to or might reduce or harm competition in anything that pertains to MRT Services, MRT Terminal Equipment or any other Telecommunications Services.

⁵⁰ Amendment No. 10

Chapter D: Establishment of the MRT System and its Operation

Section A: Establishment of the System

25. Definition

In this part:

“Milestones”- Stages in the establishment of the MRT System, according to the timetable specified in the Engineering Plan - Appendix B to the License.

26. Establishment according to the Engineering Plan

26.1 In all matters pertaining to the establishment of the MRT System (in this Paragraph: “the System”) and its operation, including the technical quality of its various components, the structure of the System and manner of its establishment, the Licensee will fulfill what is set out in the Engineering Plan - Appendix B of the Second Annex to the License, in accordance with the instructions in the Annexes to this License; in case of contradiction between the provisions of the Engineering Plan and the provisions of the License and the Annexes to the License, the License provisions shall override the provisions of the Annexes to the License, and the provisions of the First Annex shall override the provisions of the Second Annex to the License.

26.2 The Licensee will follow all the specifications of the Ministry of Communications and the standards related to the System, which were set out by standardization organizations in Israel and abroad as well as by other international organizations, both in the field of telecommunications and wireless and in any other field related to the establishment and operation of the System.

27. Implementation Stages and Timetable

27.1 The rate of establishment of the MRT System, the milestones for its establishment and the date of the commencement of service provision in the various regions of the State, will be in accordance with the timetable set out in the Engineering Plan - Appendix B of the Second Annex to the License.

27.2 The Licensee may not deviate from the timetable unless permitted to do so by the Director, provided the Licensee requested the Director in writing to receive the latter’s permission immediately after the Licensee became aware that there are difficulties preventing it from complying with the original timetable; delay in signing agreements with a third party or in receiving a permit from the planning and construction authorities, will be deemed reasonable causes for receiving the Director’s permission to deviate from the timetable, only if the Director has been satisfied that the Licensee has taken every reasonable step in the prevailing circumstances, in order to reach an agreement with a third party or to receive permit from the planning and construction authorities.

27.3 The Director may approve the Licensee’s request to deviate from the timetable, wholly or partly, and to make his approval contingent on certain conditions; the Director may authorize a deviation with respect to a certain milestone, provided that the Licensee will undertake to make up the delay in the planned rate of establishment within the next milestone.

28. Change of Plans during the Establishment

- 28.1 A Licensee may not deviate from the Engineering Plan unless permitted to do so by the Director according to the provisions of this Paragraph; however, locating a Cellular Radio Base at a site which is different from the site specified in the Engineering Plan will not be deemed as deviation if done within the Search Area; in this Paragraph, "Search Area" means an area defined in the Engineering Plan, at which the establishment of a Cellular Radio Base was planned, at a specific site in the area, and regarding which it was determined in the Engineering Plan that there might be a need to locate the base at another site in that area.
- 28.2 Should the Licensee realize, during the establishment of the MRT System, that there is a need to deviate from the Engineering Plan, the Licensee will approach the Director in writing in order to receive the latter's approval to the change in the plan; in its approach, the Licensee will specify in detail the substance and nature of the requested change and the reasons for it; the Licensee will append to the request the revised plan that it proposes.
- 28.3 The Director may reject the request or approve it, wholly or partly. The Director also may make his approval contingent on certain conditions, as long as such conditions are necessary in order to maintain the quality of the System and its performance standard. The Director will decide on the request and advise the Licensee of his decision, all within a reasonable period of time.

29. Use of Infrastructures and their Construction

- 29.1 The Licensee may, for the purpose of establishment of the MRT System and its operation, and subject to any law, establish, maintain and operate physical or wireless transmission links, provided the said transmission links will serve only for the following:
- (A) Connection between the Cellular Radio Bases that comprise part of the Licensee's MRT System;
 - (B) Connection between the Licensee's Cellular Radio Bases and its MRT Exchanges;
 - (C) Connection between the MRT Exchanges themselves;
- 29.2 For the purpose of connection as specified in Paragraph 29.1, the Licensee also may make use of physical or wireless transmission links of the Bezeq Corporation or of another Licensee or franchise holder who was lawfully authorized to provide infrastructure services as aforesaid.
- 29.3 In order to remove all doubt, it is hereby made clear that the use of transmission links established by the Licensee is only for the purpose of operating an MRT System as set out in Paragraph 29.1, unless permitted by the Minister, by License, to make additional use of the same, and in accordance with the terms stipulated by the Minister.

- 29.4 The Minister will consider providing the Licensee with a permit to establish, by itself or by means of another party on its behalf, transmission links for connecting between the Licensee's MRT exchanges and the Telecommunication Networks of other General License Holders, if he or she finds that one of the following has transpired:
- (A) The Bezeq Corporation and other domestic operators have unreasonably delayed the installation of these facilities;
 - (B) The Bezeq Corporation and other domestic operators have set out unreasonable or discriminatory conditions for the installation of these facilities;
 - (C) The Minister is of the opinion that the interest in promoting competition in Telecommunications Services obliges him to do so.

30. Connection to other Telecommunications Systems

- 30.1 ⁵¹ The Licensee shall act in order to effect the Interconnection of the Network with any other Public Telecommunications Network operating in the area in which the law, jurisdiction and administration of the State of Israel apply (including settlements, military sites and military installations in Judea, Samaria and the Gaza Strip), and including to any Wireline Public Telecommunications Network, International Telecommunications System and the MRT System of another MRT operator.
- 30.2 The Interconnection between the Network and the Public Telecommunications Network of another licensee shall be effected in such a way as to enable the following:
- (a) Transfer of telecommunications messages between Terminal Equipment connected to the Network and Terminal Equipment connected to the other Public Telecommunications Network;
 - (b) Proper and orderly provision of services by the Licensee to the subscribers of another licensee, and provision of services by the other licensee to subscribers of the Licensee.

⁵¹ Amendment No. 14

- 30.3 Interconnection may be effected directly or indirectly, via the Public Telecommunications Network of another general licensee, provided that it allows for the provisions of clause 30.2.
- 30.4 In an Interconnection between the Network and a Wireline Public Telecommunications Network, the Licensee shall act to set up Interface points between the two Networks, for every type of service (infrastructure, transmission and data communications, telephony), with at least three main Transfer Switches; unless the Director has determined otherwise based upon a written application from the Licensee; the setting up of the above Interface points shall be effected under an agreement between the Licensee and the Domestic Operator; such an agreement shall contain, *inter alia*, the technical, operational and commercial particulars of the connection, and the number and location of connections.
- 30.5 In an Interconnection between the Network and an International Telecommunications System, the Licensee shall act in accordance with the provisions of Appendix J to the License.

30A. Rules regarding Effecting of Interconnection

The Licensee shall act to effect the Interconnection subject to all of the following:

- (a) The Licensee shall ensure that the technical and operational standards of the Network match the requirements for connection to the Public Telecommunications Network of the Domestic Operators, the other MRT operators and the international operators (hereinafter: “**an Other Operator**”), that the operations of the Network be properly integrated with the operations of the Public Telecommunications Network of the Other Operator and that the Interconnection shall not harm the proper operation of these systems or proper service to their subscribers;
- (b) The Licensee shall provide the Interconnection service on equal terms to every Other Operator and shall avoid any discrimination in effecting such Interconnection, including in respect of:
 - (1) The supply of infrastructure installations and network connection services;
 - (2) the availability of connection facilities;
 - (3) methods, quality and durability of the connection;
 - (4) switching alterations and adjustments to installations, protocols and Network Interface points;
 - (5) payments for Interconnections;
 - (6) Billing and collection arrangements and transfer of information to Subscribers;
 - (7) commercial terms for effecting Interconnection;
 - (8) provision of information regarding the Network and changes therein which relate to Interconnection;

- (c) The Licensee shall make available to the Other Operator any essential information that the Other Operator requires in order to provide its services via the Licensee's facilities; such information shall be provided subject to any law regarding protection of privacy or commercial confidentiality; where the parties do not reach an agreement as to the nature and scope of the essential information, the Minister shall rule on the matter;
- (d) The Licensee shall provide the Other Operator with information on planned changes to its Network, which might affect Interconnection with the Public Telecommunications Network of the Other Operator, or Interconnection between the Public Telecommunications Networks of the Other Operators; the Licensee shall supply the said information in such a manner as to allow the Other Operator to be reasonably prepared for the implementation of the said changes;
- (e) For the purposes of sub-clauses (c) and (d), the Licensee may make the provision of information to the Other Operator conditional upon execution of a reasonable confidentiality agreement, intended to protect the rights of the Licensee under any law, including commercial secrets, intellectual property rights and the like, relevant to the information regarding the change in the Network that is to be delivered to the Other Operator;
- (f) The conditions for Interconnection between the Network and the Public Telecommunications Network of an Other Operator shall be arranged by an agreement between the Licensee and the Other Operator; where the parties fail to reach an agreement, the Minister shall rule on the matter;
- (g)
 - (1) The Licensee shall allow its Subscribers to receive all of the services offered to them by the Other Operator, and may allow the subscribers of the Other Operator to receive all of the services from the Licensee, provided that receipt of such services is possible under any law.
 - (2) The Director may order the Licensee to allow subscribers of another licensee to receive the services given by the Licensee, provided that the receipt of such services as aforesaid is technically and legally possible.
 - (3) Notwithstanding the provisions of paragraph (1), the Director may, upon a written application from the Licensee, exempt the Licensee from the obligation of providing its Subscribers with the possibility of receiving services from the Other Operator for technical, economic or other justifiable reasons.
- (h) The Licensee shall provide the Director with a signed copy of any agreement between the Licensee and the Other Operator regarding Interconnection;

- (i) The Licensee shall provide the Director, upon demand, with any information provided to the Other Operator pursuant to sub-clauses (c) and (d), and a copy of any confidentiality agreement pursuant sub-clause (e);
- (j) The Licensee shall act in accordance with any other instructions that the Minister may prescribe.

30B. Payment for Traffic Completion and Interconnection

Where the Minister has not prescribed payment for Interconnection or payment deriving from Interconnection, the Licensee may charge a reasonable and non-discriminatory sum for these.

30C. Prohibition Against Delaying Interconnection

The Minister shall give the Licensee a reasonable opportunity to make claims regarding the Minister's intention to instruct the Licensee regarding the manner of effecting Interconnection and the scope thereof, activities, services and Accompanying Services for effecting Interconnection, and payment for Interconnection; where the Minister has instructed the Licensee in respect of such matters, the Licensee shall not delay Interconnection to the Network in any manner, and shall fulfill its obligations in accordance with the instructions of the Minister, in good faith and properly, on the date prescribed for such and in full cooperation.

30D. Provision of Possibility of Use

30D.1 The Minister may instruct the Licensee regarding the provision of the possibility of use of its Telecommunications Installation in accordance with his powers under section 5 of the Law.

30D.2 The Licensee shall allow another licensee, in accordance with the instructions of the Minister, to provide Value Added Services via the Network; the Licensee shall ensure reasonable and equal conditions for any other licensee, in respect of the supply of Value Added Services by the other licensee to the Licensee's subscribers, including in respect of the matters set out in clause 30A, mutatis mutandis.

30D.3 For the purpose of provision of the possibility of Use, the provisions of clauses 30A through 30C shall apply, mutatis mutandis.

30E. Infrastructure Services to an Affiliated Company

- 30E.1 The Licensee shall avoid giving preference to a licensee that is an Affiliated Company over any other licensee, in the provision of Infrastructure Services, in terms of either payment or service, in terms of the conditions or availability of the service, or in any other manner.
- 30E.2 (a) Upon the written request of the Licensee, the Director may permit limitations for the Licensee on the provisions of clause 30E.1 in respect of another licensee or broadcast licensee which is an Affiliated Company, provided that the following conditions apply:
- (1) such other licensee or Franchisee is not a Substantial Operator;
 - (2) the Director is of the opinion that the giving of such approval shall not substantially harm competition in the field of telecommunications
- (b) Limitations as aforesaid in sub-clause (a) might permit the Licensee to provide the Affiliated Company with Use of its Telecommunications Installations under preferred conditions and may be limited by time or any other condition.
- (c) In considering the permit under this clause, the Director shall take into account the existence of a valid agreement, executed prior to Amendment No. 14 of this License, between the Licensee and an Affiliated Company, as aforesaid, *inter alia* regarding limitation of the permit by time or other conditions.
- 30E.3** In this clause, “Affiliated Company”, “Subsidiary” and “Substantial Operator” – as defined in the Telecommunications Regulations, (Proceedings and Conditions for Receipt of a General License for the Provision of Domestic Wireline Telecommunications Services) 5760-2000.

30F. Numbering Plan

- 30F.1 The Licensee shall act in accordance with the Numbering Plan, and in accordance with the instructions of the Director regarding the activation and implementation of the Numbering Plan.
- 30F.2 Should the Director give instructions regarding number portability such that every subscriber of another MRT licensee shall be able to become a subscriber of the Licensee or receive services from the Licensee without altering his number, and vice versa, the Licensee shall integrate facilities in its Public Telecommunications Network that will allow for the implementation of such feature, on the date and in the manner to be prescribed by the Director.

31. Report on Establishment Work

- 31.1 The Licensee will submit to the Director, during the entire establishment period of the MRT System, quarterly reports which will comprise the establishment work that was carried out during the period covered by each report, according to the Milestones and timetables in the Engineering Plan; for the matter of this Paragraph, "the Establishment Period" is the period of forty eight (48) months from the date of License award or until the date of completion of the Establishment of the System to its full deployment according to the Engineering Plan - the earlier of the two.
⁵²During the erection period, this report shall be integrated into the outline engineering report, as set forth in Article 104.1(e).
- 31.2 The reports will include comparison of the actual implementation of the plans against planning, as of the date of each report, and explanations of any deviation or change in the implementation as compared to the design.
- 31.3 Each report will be submitted in three (3) copies in a format as instructed by the Director, bearing a date and signed by the Licensee or whoever was authorized by it particularly for this purpose.
- 31.4 The Director may require the Licensee to prepare special reports as well as redraft any report that was submitted to him, or complete it.

32. Submission of Information and Documents

- 32.1 The Licensee will submit to the Director, on his request, any information and document on the implementation of the establishment work on the MRT System, at the date and in the format and manner as instructed by the Director.
- 32.2 For the matter of this Paragraph and Paragraph 33, "a document" includes any information stored in a computer or in an information database.

33. Supervision of Establishment Work

- 33.1 The Director may supervise personally, or through another person acting on his behalf, the actions taken by the Licensee to carry out the establishment work. In order to carry out the supervision, the Director may enter, at any reasonable time, the work sites, facilities of the MRT System and the Licensee's offices, in order to conduct measurement and tests and to examine any plan or document pertaining to the implementation of the establishment work.
- 33.2 The Licensee will cooperate with the Director in everything that pertains to the conducting of supervision of the establishment work, and without derogating from the generality of the above, will allow him to enter the work site and its installations, allow examination of any document, plan and specifications and provide him with any required information that the Director may request.

34. Repair of Faults and Defects

- 34.1 The Director may advise the Licensee in writing of faults, defects and deviations that he found in the establishment work of the MRT System, on the basis of reports submitted by the Licensee, documents and information that it provided the Director, or on the basis of measurement and tests that he conducted.

⁵² Amendment No. 71

34.2 Should the Licensee receive notification as set out in Paragraph 34.1, it will notify the Director, within fourteen (14) days from the date on which it was notified of the above, of its response to the notifications and the actions that it has taken or is about to take in order to remedy the faults, defects or deviations.

35. Safety and Security Precautions and Prevention of Hazards

35.1 The Licensee will carry out the establishment works while taking adequate safety precautions in order to prevent accidents to people and damage to property. It will refrain from causing disturbances and hazards to the public in the work area, and if required to conduct excavation at the site, it will make every effort to prevent damages to underground Systems, including Telecommunication Networks. For this purpose, it will ensure that it obtains every permit required by any law, including permit for excavation works according to Section 53B of the Law.

35.2 On completion of the establishment work, the Licensee will make sure that the work site is clean and restored to its previous condition.

36. Cancelled.

37. Crossing Electricity Lines and Telecommunication Systems

Where electricity lines or electric installations exist before the installation of the MRT System, the Licensee will be subject to the obligations according to the Telecommunication and Electricity Regulations (Proximity of and Crossing Between Telecommunication Lines and Electricity Lines), 1986.

38. Discovery of Antiquities and Preservation of Sites

38.1 Antiquities as interpreted by the Antiquities Law, 1978, which will be uncovered at a site where establishment work is conducted, are State assets, and the Licensee will take adequate precautions in order to avoid causing damage to them.

38.2 The Licensee will advise the Director of the Antiquities Authority of the discovery of an antiquity within fifteen (15) days of the date of discovery of the antiquity, and will comply with all instructions by the Authority Director in all matters pertaining to the manner of handling the antiquity.

38.3 During the establishment work, the Licensee will refrain, as far as possible, from causing damage to sites of historic or national value, tourist sites and landscape.

38.4 The Licensee will refrain, as far as possible, from causing damage to structures and trees in the sites where the establishment works are conducted.

39. Powers pertaining to Real Estate

- 39.1 The Minister may, upon request from the Licensee, grant it the powers set out in Chapter F of the Law, wholly or partly, subject to the provisions of Paragraph 39.2.
- 39.2 The Licensee will specify in its request the sites in which it requires powers as aforesaid, the scope of the required powers and the reasons for the request, including actions it has taken to find alternative sites without the need of powers in accordance with Chapter F of the Law.
- 39.3 If the Minister is satisfied that the Licensee should be granted powers in accordance with Chapter F of the Law, the Minister will publish his decision in “*Reshumot*”, the Official Gazette.

Section B: Equipment Tests and Installation Approvals

40. Compatibility Tests

The Director may determine equipment items that are not to be installed in the MRT System before undergoing compatibility tests; for the matter of this paragraph, “Compatibility” - as implied by the provisions of Paragraph 41; should the Director decide as aforesaid, the items will not be installed before a compatibility test is conducted on them.

41. Responsibility for Compatibility

The Licensee is responsible for ensuring that equipment installed in the MRT System meets at least the condition of technical compatibility to the properties specified in the manufacturer’s specifications relevant to the same equipment item, that were appended to the Engineering Plan.

42. Performance Testing Program, and its Approval

42.1 The Licensee will provide the Director, no later than 30 days before notifying of its end of establishment according to Paragraph 43, with an up-to-date, detailed testing program, for conducting the performance tests, related to the part of the MRT System that it wishes to operate (hereinafter: “Detailed Testing Program”).

42.2 The Licensee will present to the Director the Detailed Testing Program; the Director may require the Licensee, within fifteen (15) days from the said presentation, to change the Detailed Testing Program or to complete it, if he deems it necessary for a full and accurate implementation of the performance testing, and the Licensee will carry out the tests as required by the Director.

43. Notice of Establishment Completion

When the Licensee completes the establishment of an exchange or a Cellular Radio Base in any area in a manner that allows to start providing MRT Services through it, the Licensee will advise the Director of the same in writing, in the format as instructed by the Director, complete with the results of the detailed tests that indicate the success of the establishment and operation.

44. Fitness and Operation Conditions

44.1 The Licensee must meet the following requirements and conditions within six (6) months from the date of License award, prior to the operation of the system and the provision of service to subscribers in return for payment:

- (A) **Agreement with an equipment manufacturer** - the Licensee has valid agreements with a manufacturer of MRT System equipment and MRT Terminal Equipment, including:
 - (1) A know-how agreement which ensures that all know-how required for the establishment, operation and maintenance of the equipment and system will be at its disposal;

- (2) An agreement providing for supply of spare parts for the System equipment for a period of at least seven (7) years;
- (3) An agreement providing for technical support and software upgrades in the System components for a period of at least seven (7) years;
- (4) An agreement ensuring the supply of technical literature and full documentation of the System equipment, including upgrades;
- (B) **Workshop and test equipment** - the Licensee is operating an authorized workshop, or has a valid agreement with an authorized workshop, for conducting tests and repairs of the MRT Systems equipment; the workshop will include professional testing equipment for conducting the tests and repairs, including mobile testing equipment;
- (C) **Spare parts** - the Licensee maintains and runs a spare part warehouse for the MRT Systems equipment according to the recommendations of the equipment manufacturers;
- (D) **Maintenance System** - the Licensee maintains by itself or through another an efficient maintenance System, including maintenance personnel, vehicles and means of communication, which ensures an orderly on-going operation of the System and allows taking care of any fault within the response time required in this License, and also allows - in any event of a serious fault in the MRT System, causing radio interference or massive disconnection of subscribers, or constituting a safety hazard - to repair the fault within four (4) hours;
- (E) **Control System** - the Licensee itself maintains and operates a System of remote control that allows it to gauge System performances and the load on its components, including interconnections with other Telecommunication Networks, and make sure that these operate properly;
- (F) **Means of communication** - in the exchanges at the operations centers and in the service and maintenance centers, means of communication were installed, such as a wireless set, a telephone or a mobile telephone.
- (G) **Security** - the Licensee has met the requirements of the Security System, in accordance with the provisions of Paragraph 66.2, to an operation standard that satisfies the Director.

44.2 The Licensee will provide the Director, within seven (7) days before the first activation of the System, with certificates and documents indicating that it meets the requirements and terms set out in Paragraph 44.1; if the Director does not respond within five (5) working days from the date of delivery of the said documents, the Licensee will activate the MRT System and connect subscribers to it; if the Director instructs the Licensee, according to the findings in the documents, to change or repair the System, the Licensee will carry out the required change or repair and provide the Director with a certificate of implementation, and if the Director does not respond within three (3) working days, the Licensee may activate the System as aforesaid.

Section C: Use of Frequencies

45. Frequency Allocation

45.1 The Licensee may operate the Cellular Radio Bases of the MRT System while using the frequency bands as specified below:

(A) Frequency bands that were exclusively allocated for the use of the Licensee in the territory of the State of Israel:

902.2 MHz through to 910.2 MHz, and 947.2 MHz through to 955.2 MHz;

(B) Frequency bands that were not exclusively allocated for the use of the Licensee, according to rules and limitations that will be determined by the Director:

910.2 MHz through to 912.2 MHz, and 955.2 MHz through to 957.2 MHz

⁵³(B1) Frequency bands that have been non-exclusively been allocated for its use as of February 25, 2010, in accordance with the rules and limitations that will be set by the Director: 912.6 Mhz to 915 Mhz and 957.6 Mhz to 960 Mhz⁵⁴.

⁵⁵(C) Frequency bands allocated exclusively for the Licensee's use as specified below :

(1) From 1 February 2002 to 1 January 2004, the following bands shall be allocated:

1732 to 1738.4 MHz, and the matching domain 1827 to 1833.4MHz;
1937 to 1942 MHz, and the matching domain 2127 to 2132 MHz;

(2) As of 1 January 2004, the following bands shall be allocated:

1730 to 1740 MHz and the matching domain 1825 to 1835 MHz;
1940 to 1950 MHz and the matching domain 2130 to 2140 MHz;

⁵³ Amendment No. 68

⁵⁴ These frequency bands have been used by the Licensee since 1999.

⁵⁵ Amendment No. 14

(3) As of 1 January 2005, the frequency domain 1910 to 1915 MHz shall be allocated.

(4) Notwithstanding the aforesaid, if the Licensee requests to postpone the date of the beginning of use of the bands set out in sub-clauses (1) to (3) or part of them, to a later date, the Director may suspend the band allocation until a date to be decided upon.

45.2 The Licensee may operate the Cellular Radio Bases of the MRT System while using additional frequency bands, if they are allocated by the Director, in accordance with the rules and limitations which will be determined.

45.3 The Licensee may select a frequency band narrower than the one stated above, within the framework of the frequency bands specified in Paragraphs 45.1 and 45.2.

45.4 The Director may, after the elapse of four (4) years from the date of the License award, reduce without compensation the frequency range in which the Licensee is permitted to operate its Cellular Radio Bases as specified above in Paragraph 45.1, if he or she realizes that a said reduction will bring about a better utilization of the frequency spectrum in Israel, considering the extent of frequency utilization by the Licensee, the number of its subscribers and the average traffic per subscriber, in comparison with the number of Subscribers and the average traffic per Subscriber of other MRT Systems. The Director will not decide to reduce the range of frequencies as aforesaid unless he has given the Licensee opportunity to voice its arguments.

45.5 The Director may limit the Licensee to operating certain frequencies in limited geographic areas and/or operating part of the frequencies in parallel to additional service providers and in coordination with them, in accordance with the Director's instructions.

46. Constraint on the Use of Frequencies

- 46.1 The Licensee will make use of the frequencies allocated to it as stated in Paragraph 45 for the sole purpose of providing services in accordance with this License.
- 46.2 The frequencies allocated exclusively to the Licensee, as stipulated in Paragraph 45.1(A), include protection ranges of 200 KHz, and the more it is required to expand the protection ranges, the greater, respectively to the expansion, will be the decrease of the frequencies allocated to it; the frequencies that were non-exclusively allocated to the Licensee do not include protection ranges, and in any event they will not be allocated protection ranges.

47. Safety in Using Frequencies, and the Prevention of Interference

- 47.1 The Licensee will establish the MRT System and operate it in a manner that will ensure that each of its components does not emit radiation prohibited by the Pharmaceutical Regulations (Radioactive Elements and Their Products), 1980, and will do everything necessary, if required, to receive a permit in accordance with the said regulations; in this matter, the Licensee will act, *inter alia*, as follows:
- a) The Licensee will coordinate its activity with the official in charge of the environmental radiation, in the Ministry of the Environment (hereinafter: "the Official"), and will carry out his or her instructions;
 - b) The Licensee will submit to the Official, before the construction of each site, a risk estimate report; the site will only be constructed after it receives the approval of the Official; after operating the site, the Licensee will carry out measurements in accordance with the Official's instructions; a site which will not meet the Official's requirements will not be operated;
 - c) The Licensee will bear its relative share of the costs of preparation of a Country-wide MRT Installation Master Plan, in accordance with the provisions of the Law of Planning and Construction, 1965, jointly with the other MRT Operators.
- 47.2 The Licensee will coordinate the use of frequencies with the Director, who will base his guidelines, *inter alia*, on the national emergency plan or a special situation plan in the home front.
- 47.3 The Licensee will submit to the Director, at least 60 days before the operation of the Cellular Radio Bases, a detailed up-to-date plan of operation of the Cellular Radio Bases, of the radio links and of the expected use of frequencies; the plan will include, *inter alia*, the transmission and reception frequencies, gain and height of the antennas and transmission outputs; the Licensee will advise the Director of the actual implementation of the plan within seven (7) days from the date of operation; the Licensee will submit to the Director, during the month of January each year, an up-to-date report on the operation and use as aforesaid; the Director may require the Licensee, for reasons that will be recorded, to submit to him/her, within five (5) days an up-to-date report on the operation of Cellular Radio Bases, radio links and use of frequencies, as aforesaid.
- 47.4 The Licensee will establish the MRT System and operate it in a manner that will prevent interference with other telecommunication and wireless Systems that are operating lawfully; without derogating from the generality of the aforesaid, the Licensee will act in this matter, *inter alia*, as follows:
- a) Before operating any Cellular Radio Base, the Licensee will conduct tests and measurements in order to avoid electromagnetic interference;
 - b) In the event of discovering that electromagnetic interference is expected, or if electromagnetic interference is discovered during operation, the Licensee will act, immediately and no later than 24 hours from discovering the above, to coordinate a solution that will prevent this interference and prevent its recurrence; failing to find a solution, the Licensee will apply in writing to the Director or his or her appointee in order to find a reasonable solution for the problem;

- c) The Licensee will cease the operation of any MRT System component that causes interference to another wireless System that operates lawfully, and will not reactivate it without the Director's permission; the Director may require from any of the parties - from the Licensee as well as from the owner of another wireless system - to make changes in the operation of the equipment or the use of frequencies, or to cease broadcasting on specific frequencies, in the entire country or in a particular region;
 - d) The Licensee will comply with all of the Director's requirements regarding the handling of interferences and coordination with other operators, in Israel, in the territories of the Palestinian Authority and in neighboring countries, will submit to the Director any information required for this purpose, will carry out electromagnetic measurements in accordance with the Director's requirements, and will refrain from using frequencies that will be defined in sites determined by the Director; the Licensee will operate within the limits instructed by the Director regarding transmission in certain frequencies in certain sites, and the imposing of certain constraints regarding the height, type and direction of antennas; the coordination as aforesaid will be carried out by the Licensee, on its expense and under its responsibility, both in accordance with special instructions by the Director and in accordance with the instructions of international conventions and agreements to which Israel is a signatory.
- 47.5 The award of this License, as well as the approval of the Engineering Plan, shall not be deemed as providing protection against harmonies from other radiating bodies, whether operating lawfully or unlawfully, or spurious radiations from other radiating bodies, whether operating lawfully or unlawfully, or protection against other radiating bodies operating in frequency ranges identical to the frequency ranges that were allocated to the Licensee outside the territory of the State or in a territory over which the State has no control, however, the Director will make a reasonable effort to find a suitable solution for the required protection.

48. MRT Operation at Times of Emergency

- 48.1 During an emergency, including a major communications crisis in Public Telecommunication Networks or a natural disaster, or for reasons of a special situation in the home front, as defined in Paragraph 9C of the Civil Defense Law - 1951, any lawfully authorized person may take the necessary measures to protect the security of the State or to ensure the provision of necessary services to the public, while giving notice to the Licensee, including taking control of the System; in such circumstances, the Licensee will act according to the instructions by and notifications from those who are lawfully authorized, including the government, the Minister, the Director and the head of the Transmission Spectrum and Satellites Emergency Unit (hereinafter: "Head of the Emergency Unit").
- 48.2 The Licensee will notify the Head of the Emergency Unit of the names of its authorized representatives for the purpose of receiving instructions and notifications at any time twenty-four (24) hours a day, in matters pertaining to emergency and national security matters; first deputy and second deputy will be appointed for the representative, and they will take over for the representative in the latter's absence.
- 48.3 The Licensee will establish the MRT System and operate it in a manner that will allow to reduce, as necessary in case of emergency, the System activity:
- (A) In a frequency section;
 - (B) In a geographical section;
 - (C) By disconnecting some of its Subscribers, in accordance with prepared lists or instructions deriving from the situation;
 - (D) In a section combining sections (a), (b) and (c).
- 48.4 The Licensee will prepare itself so that it will be possible to carry out quickly and effectively the reductions specified in Paragraph 48.3, through remote control or by being present at the actual sites.
- 48.5 The Head of the Emergency Unit may determine a detailed procedure regulating the activity of the MRT System during times of emergency; this procedure will be provided to the Licensee, and the latter will rigorously follow its instructions.

Section D: Tests and Maintenance⁵⁶

49. Definitions

In this part:

- “**Periodic Test**”- Test of the network or any part of it, that is conducted in accordance with the License provisions, at fixed intervals and at least annually;
- “**Special Test**” - Test of the network or any part of it, conducted due to a maintenance or repair activity, following an electromagnetic interference, a malfunction, complaint review technological change, modification of the Engineering plan; etc.
- “**Routine Test**”- Testing of the network or any part of it, conducted on a regular basis.

50. Execution of Tests

- 50.1 The licensee shall carry out periodic tests of the MRT system, and shall submit the results of the test upon the director’s request within 30 days from the day of the request.
- 50.2 The licensee shall establish and operate an inspection system for constant monitoring of the network’s performance and its intactness and shall conduct on a regular basis routine tests of the network or any part of it, as needed.
- 50.3 The licensee shall conduct routine tests regarding the quality of service as detailed in Annex E, and the relevant standards of the ITU-T, and shall provide the results of the tests upon the director’s request, within 30 days from the day of the request.
- 50.4 The director may instruct the licensee to conduct a special test; the licensee shall perform the said test in a manner and at a time to be advised by the director and shall submit the results to the director.

⁵⁶ Amendment No. 41

- 50.5 The director or anyone else authorized on his or her behalf shall be allowed to perform the test themselves, if in their opinion it is required, the licensee shall allow the director or anyone else authorized on his or her behalf, after prior coordination, access to installations and equipment and shall put at their disposal their testing equipment and professional manpower employed by the licensee.

51. Test, Fault and Maintenance Log

- 51.1 The licensee shall maintain a test, fault and maintenance log (hereinafter – “**maintenance log**”), in which details of the faults and tests of the network shall be recorded.
- 51.2 The licensee shall keep the maintenance log, shall allow the director or anyone authorized on his or her behalf to see the log at any time, to check it, copy it in any manner and to pass it to the director upon his demand.

52. Repair of Faults and Defects

- 52.1 The director may, after giving the licensee sufficient opportunity under the circumstances to present its arguments, notify the licensee in writing of faults and defects that he found and that harm the grade of service for subscribers, the level of survivability and back up of the network, damage to the level of security or interference with the other systems that operate properly, based on tracking the network’s performance, including through subscriber complaints, tests he carried out or based on test reports, documents and information provided to him by the licensee.
- 52.2 The director may instruct the licensee of the dates that the defects and malfunctions must be repaired.
- 52.3 If the licensee receives such notification, it must notify the director within the time set forth in the director’s notice of the repair of the defects and malfunctions, detailed as per the director’s request.

53. deleted

54. deleted

Chapter E - Provision of MRT Services to Subscribers

Section A - Agreement with Subscribers

^{155.} The subscriber agreement

- 55.1 The licensee shall prepare a format for a subscriber agreement that it intends to offer its subscribers, and shall submit it to the director upon his demand.
- 55.2 The terms of the subscriber agreement shall not contradict, explicitly or implicitly the provisions of any law or the license; the aforesaid is not meant to prevent changes to the provisions of the subscriber agreement, that benefit the subscriber as compared to the provisions of the law or the license.
- 55.3 The subscriber agreement shall be in writing and shall be in a clear and easy manner to read and understand, and shall state clearly any condition or restriction regarding the subscriber's right to terminate the subscriber agreement or regarding the licensee's duties towards the subscriber; any stipulation in the subscriber agreement shall be stated clearly and not only by reference.
- For this article- "writing"-including an electronic document that can be saved and reconstructed by the subscriber.
- 55.4 The subscriber agreement shall clearly include, among other things, the following:
- a) ²A first page, separate, printed, that will detail clearing and accurately without any additions or changes in handwriting, the following (hereinafter-"**the main plan details page**"): (1) The name of the Licensee or its logo, the details of the Licensee's representative that executed the agreement, the date of the transaction execution, the subscriber's details including his name, I.D. number, address, telephone number that the agreement pertains to, an additional telephone number of the subscriber to where notices regarding the usage amount of a cellular internet browsing plan as set forth in article 75D will be sent and the MRT handset model, if included in the agreement; notwithstanding the beginning of section (a) the aforementioned details in that sub-section , except for the Licensee's name or logo, can be handwritten;

⁵⁷Amendment No. 41-shall become effective no later than 30.4.2007

⁵⁸ Amendment No. 57-shall become effective on September 13, 2011.

- (2) The commitment period, if one exists, and the termination date. For this sub-section, "commitment"-as defined in section 56.1A;
- (3) All of the tariffs according to which the Licensee will charge the subscriber for the services requested by the subscriber upon execution of the agreement, as well as the rates of each fixed payment, if there are any, in the agreement;
The service tariffs shall be displayed in a 2 columned chart- "name of the service" and "price of the service";

For cellular internet browsing packages as defined in section 75D-the unit tariff for the service not included in the package shall be displayed next to the chart in the same values as those in the chart;
- (4) The total price of the handset and ancillary accessories that are purchased at the time of execution of the agreement (hereinafter-the equipment), and if the Licensee and subscriber agree to a payment schedule for the equipment-the amount of each payment;
- (5) Any benefit as defined in article 64.1A, while indicating the benefit value and the exact period when the benefit will be given;
- (6) The calculation method of the amount that the subscriber will be required to pay for breaching the agreement as defined in article 56.1A;
- (7) For a business subscriber-information regarding the increase of tariffs during the commitment period, if such a possibility exists as part of the subscriber agreement conditions, including the date and amount of the tariff increase;
- (8) Information regarding the balance of payment and/or the cancellation of a benefit for equipment purchased from the Licensee, in a previous agreement;
- (9) The Licensee's commitment to pay to the subscriber of another MRT licensee that became its subscriber, the payment that the said subscriber will be required to pay to the other MRT licensee for breach of this commitment to the other MRT operator and the distribution manner of said payment.

For this matter-"**commitment**"-as defined in article 56.1A;

- (10) A subscriber's declaration that he has read the page and received a copy at the time of execution of the agreement. Next to the declaration, there should be an original signature of the subscriber and the details of the Licensee's representative that executed the agreement and his original signature. The declaration shall appear at the end of the main plan details page.
- (11) ⁵⁹With regards to sub-section (a) (1) to (10)- "subscriber"- whoever has signed a subscriber agreement with a Licensee for the receipt of MRT services for no more than twenty five telephone numbers except for Pre-Paid subscribers.
- (a1)⁶⁰ (1) a separate page, printed, upon which the subscriber will be required to mark his choice regarding the accessibility of each phone number that the agreement refers to, services, as detailed in annex E 2 (hereinafter-"**service access form**" or "**form**") ⁶¹and to sign with an original signature next to the marking and at the bottom of the form . The form shall come after the main plan details page;
- (2) ⁶²A new subscriber that did not indicate his choice, whether blocked or open, on the appropriate form (hereinafter-"the choice") and signed next to the service that appears on the form as set forth in section (1) or did not sign next to the service despite the fact that he marked his choice, or did not mark his choice and did not sign next to the service, shall be blocked from receiving that service.
- In this section, "new subscriber"- whoever has signed a subscriber agreement with a Licensee after September 13, 2011;
- (3) A subscriber may request from the Licensee at any time, in writing or by phone, to change his choice regarding accessibility to the services detailed in the form (hereinafter in this section-"subscriber's request"). A first change shall be done free of charge. The Licensee shall execute the subscriber's request only after he has identified the subscriber. The request shall be available at the Licensee, for hearing it or presenting it, according to the matter, to the Director, within five (5) working days from the request date. The subscriber's request shall be executed within ⁶³one working day ⁶⁴from the date of receipt of the request.

⁵⁹ Amedment No, 58

⁶⁰ Amendment No. 57-shall become effective on September 13, 2011

⁶¹ Amendment No. 58

⁶² Amendment No. 58

- (4) The Licensee shall include in the telephone bill following the subscriber's request a notice regarding the execution of the request and the date of the execution. The said telephone bill shall be available at the Licensee for presentation to the Director, within five (5) working days from the date the bill is prepared;
- (5) ⁶⁵The Licensee shall include the form with the two (2) immediate telephone invoices that will be sent after September 13, 2011, to a subscriber that is not a new subscriber
- (6) ⁶⁶A subscriber that is not a new subscriber that did not submit his preferences regarding the form to the Licensee by Sept 13, 2011, shall be blocked from receiving the services detailed in section 3 of the form, within seven (7) working days from the said date; ⁶⁷Notwithstanding, a subscriber who is not a new subscriber, that does not use the services set forth in section 3 of the form as of November 1, 2011 and did not relay his response to the licensee with respect to the form by December 1, 2011, the licensee may block the subscriber from receiving the said services as of December 1, 2011; ⁶⁸a subscriber who is not a new subscriber, who relays his response to the licensee with respect to the form, shall be blocked or open for the receipt of the services in accordance with his request in the form, within one working day after receipt of the request a subscriber that relayed his preferences in the form to the Licensee and did not mark his choice and signed next to the service that appears on the form as set forth in sub-section (1), shall be blocked from receiving that service;

The Licensee shall notify the subscriber about the blocking in the first telephone bill after the blocking. The said telephone bill shall be available at the Licensee for presentation to the Director, within five (5) working days from the day it is sent to the subscriber.

⁶³ Amendment No. 58

⁶⁴ Amendment No. 61

⁶⁵ Amendment No. 58

⁶⁶ Amendment No. 58

⁶⁷ Amendment No. 62

⁶⁸ Amendment No. 61

(7) The Licensee shall publish the form on its internet site within seven (7) working days from ⁶⁹September 13, 2011.

(8)⁷⁰ For the purpose of sub-section (a1)(1) until (6)-"subscriber"-except for a subscriber in a pre-paid plan. Notwithstanding the mentioned, the Licensee shall block services in accordance with a pre-paid subscriber's request, if the request was received from the telephone number that the request pertains to or the said subscriber presented to the Licensee the handset using the number that the request pertains to, or in any other manner that satisfies the Licensee.

- (a) 2. The service conditions for the subscriber, including gauges of quality of service to customers and subscribers as set forth in article 2 in Annex E;
- (b) The termination conditions of the licensee's services or the conditions for total termination;
- (c) The service tariffs of the licensee that the subscriber joined updated to the day of the agreement, including the date and conditions for the termination of the tariff plan;
- (d) The limitation regarding the amount of interest for late payment, linkage differentials and collection expenses as set forth in article 80.3;
- (e) The condition for changing the tariff of a service that the subscriber has joined, as set forth in article 78.1;
- (f) The details set forth in articles 61 and 61A regarding a person responsible for handling the public's complaints and for settling disagreements;
- (g) A condition that states that in case of a contradiction between the provisions regarding the tariffs and the service packages that are detailed in the agreement and the provisions of the license regarding this matter, the provisions of the license shall prevail;
- (h) A notice regarding the director's authority to instruct the licensee to change the subscriber agreement, and clarification that the subscriber's signing a subscriber agreement with the licensee constitutes agreement to said changes.

⁶⁸ Amendment No. 58

⁶⁹ Amendment No. 58

55.5 ⁷²In an agreement in the presence of the Licensee's representative and the subscriber, the Licensee shall act as follows:

- (a) Before signing the agreement, the representative shall present the person applying to become a subscriber of the Licensee (hereinafter-"**the applicant**") with a printed copy of the subscriber agreement and shall allow him to review it;
- (b) Upon signing the agreement, the applicant and Licensee representative shall sign the originally copy of the subscriber agreement that was presented for the applicant's review. After the said signature the Licensee representative shall give the subscriber a copy of the subscriber agreement upon which the Licensee representative's and applicant's original signatures appear;
- (c) After execution of the aforesaid in sub-section (a) and (b), the Licensee representative may ask the subscriber to sign an additional copy of the subscriber agreement identical to the one originally signed, by using electronic means;
- (d) The Licensee shall keep a signed copy of the subscriber agreement; the said copy shall be available at the Licensee for presentation to the Director, within five (5) working days from the date of the agreement;
- (e) If the subscriber requests to make changes to the agreement conditions, including a request to receive additional services, cancel services or to join a service package-the subscriber shall receive at the time of the change, a printed notice that bear's the Licensee's name or logo, in which the details of the change executed are listed, the date they become effective and the full name of the Licensee representative and the subscriber and their original signatures. The signed notice shall be available at the Licensee for presentation to the Director within five (5) working days from the date of the subscriber's request.

⁷⁰ Amendment No. 58

⁷¹ Amendment No. 57-shall become effective September 13, 2011.

55.6 ⁷³ If the Licensee publishes on its internet website a tariff plan, including tariff plans that include the purchase of MRT equipment, the said publication shall also include the subscriber agreement conditions regarding that tariff plan, including the details on the "main plan details page".

55.7 ⁷⁴ Notwithstanding the afore-mentioned in Article 55.5, the Licensee may have a subscriber sign a subscriber agreement also by a computerized graphic signature, instead of an original signature, and for this matter the provisions of Appendix E shall apply instead of Article 55.5.

For this matter, "computerized graphic signature"-a signature that is digitally maintained as a graphic file."

⁷⁵**55A Long Distance Purchase**

55A.1 In a long distance purchase as defined in article 14c of the Consumer Protection Law, 1981 ("**long distance purchase**"), the Licensee shall act as follows:

- (a) Shall send to the subscriber a document that includes all of the details set forth in sub-sections 55.4 (a2) until 55.4 (h), the "main plan details page" and the "service access form" marked in accordance with the subscriber's choices, as orally notified to the Licensee's representative or as typed in at the time of execution of the agreement by internet (hereinafter- "**agreement conditions document**"). In a long distance purchase executed by internet, the agreement conditions document may not include the full names and signatures of the subscriber and of the Licensee's representative that executed the agreement⁷⁶by regular mail or by electronic mail or facsimile if the subscriber agreed; a copy of the agreement conditions document shall be available at the Licensee for presentation to the Director, within five (5) working days from the date of the agreement execution. If the Licensee sends the agreement conditions document by electronic mail or facsimile, the approval receipt should also be available at the Licensee for presentation to the Director, within five (5) working days from the date of sending the said document;

⁷² Amendment No. 57

⁷³ Amendment No. 69

⁷⁴ Amendment No. 57-shall become effective September 13, 2011

⁷⁵ Amendment No. 67

- (b) If the subscriber requests to make changes to the agreement conditions document, including a request to receive a service or a service package" (⁷⁷in this section **change**)"-the Licensee shall send the subscriber a printed notice that bear's the Licensee's name or logo, in which the details of the change executed are listed, the date they become effective, ⁷⁸the service tariff or service package and the full name of the Licensee representative and the subscriber. ⁷⁹In a long distance purchase executed by internet, the notice shall not include his name or that of the Licensee's representative. The notice shall be available at the Licensee for presentation to the Director within five (5) working days from the date of the subscriber's request.

The notice shall be sent to the subscriber by regular mail or by electronic mail or facsimile if the subscriber agreed. If the Licensee sends the notice by electronic mail or facsimile, the approval receipt should also be available at the Licensee for presentation to the Director, within five (5) working days from the date of sending the notice;

- (c) ⁸⁰Notwithstanding the mentioned, if a subscriber requests to make changes that do not entail an extension of the subscriber's commitment period or creating said period, the Licensee shall include in the first telephone bill after the request date a notice in which all of the details set forth in sub-section (b) are detailed, except for the name of the Licensee's representative. For this sub-section, "commitment"-as defined in Article 56.1A of the License".

⁸¹55.2A The Licensee may execute a long distance purchase by internet as long as the following conditions are fulfilled:

- a) The Licensee's website shall clearly include all of the details set forth in sub-sections 55.4(a2) until 55.4(h) as well as the "main plan details page" and the "service access form".
- b) The subscriber declared, by marking the required place on the internet website, that he has read all of the information included in the "main plan details page".

⁷⁷ Amendment No. 58

⁷⁸ Amendment No. 58

⁷⁹ Amendment No. 67

⁸⁰ Amendment No. 58

⁸¹ Amendment No. 67

56. ⁸²If the Licensee publishes on its internet website a tariff plan, including tariff plans that include the purchase of MRT equipment, the said publication shall also include the subscriber agreement conditions regarding that tariff plan, including the details on the "main plan details page."

56A⁸³. The Commitment Period in the Subscriber Agreement

56A.1 If the Licensee signs a Subscriber Agreement with a Subscriber that is not a Business Subscriber, that includes a commitment, the commitment period shall not exceed eighteen (18) months; For this article, "commitment of a Subscriber to meet the conditions regarding the scope of consumption of services, payment amount or payment conditions during the defined period, for which not meeting those conditions during that period entails a payment, including the return of a benefit or an exit fee."

56A.2 If the Licensee offers a Subscriber that is not a Business Subscriber, to sign a Subscriber Agreement that includes a commitment, the Licensee shall offer the Subscriber a subscriber agreement that does not include a commitment, that offers a reasonable alternative to the agreements that includes commitments. In this respect, a Subscriber Agreement that includes a "pre-paid plan" will not be considered a reasonable alternative to a Subscriber Agreement that includes a commitment.⁸⁴The Licensee shall publish on its internet website the subscriber agreement that does not include a commitment, including "the main plan details page" of the said agreement.

⁸² Amendment No. 57-shall become effective September 13, 2011

⁸³ Amendment No. 45

⁸⁴ Amendment No. 57

56A.3 If the Director concludes that the Licensee has breached section 56A.2, he may instruct the Licensee to change the conditions of a Subscriber Agreement that does not include a commitment, without derogating from any other authority set forth in the License or by law. In this respect, the Director will examine, among other issues, the number of subscribers of the Licensee that have signed agreements without commitments.

56.1

57. Deleted⁸⁵

58. Deleted⁸⁶

59. The Obligation to Connect Applicants and the Prohibition of Conditional Agreement

59.1 Should the Licensee fulfill the conditions regarding the operation of the MRT System as stated in Paragraph 44.2, the Licensee will connect any applicant to the MRT System no later than the date determined in the Subscriber Agreement with the Subscriber unless the Director has given his approval to the Licensee not to connect an applicant for reason which he considers justifiable.

59.2 Subject to the provisions of Paragraph 60.2, the Licensee may not condition the connection of an applicant, the provision of services or determining of tariffs, by unreasonable conditions that are discriminatory or unfair, and without derogating from the generality of the above:

- (A) The Licensee is not permitted to obligate a Subscriber to purchase Terminal Equipment from it or from its agent.
- (B) The Licensee is not permitted to obligate the Subscriber to receive from it maintenance service or insurance for the Terminal Equipment in his or her possession.
- (C) The Licensee is not permitted to limit supply of spare parts for Terminal Equipment that was purchased from it or from its agent, to Subscribers or to another provider of maintenance services.

⁸⁵ Amendment No. 42

⁸⁶ Amendment No. 42

Section B - Grade of Service for Subscribers

60. Obligation of Maintaining Service

- 60.1 The Licensee will offer its Subscribers the entire services detailed in the First Annex, in accordance with the conditions specified in the Annex, and will maintain its entire services throughout all days of the year during all the hours of the day and night, both in peacetime and in times of emergency, subject to Paragraph 48, in accordance with the technical requirements and the requirements regarding the quality of service, in an orderly and normal manner and of a quality that will not be inferior to the criteria of service quality specified in the First Annex to the License and in Appendix E of the Second Annex to the License; in case of contradiction between the First Annex and Appendix E of the Second Annex to the License, the provisions of Appendix E of the Second Annex will prevail.
- 60.2 ⁸⁷ Without derogating from the provisions of clause 75.3, the Licensee shall provide MRT Services and the Services Package, as defined in clause 73A, to every person so requesting, on equal and non-discriminatory terms, and at a non-discriminatory tariff.
- 60.3 Should the Director find that the Services Package might harm competition or consumers, he shall give notice of such to the Licensee noting the date on which the Licensee is to cease offering the Services Package to its subscribers.
- 60.4 If the Licensee provides any MRT Service to any person or body in return for payment, the service shall be available to every Subscriber in the entire coverage area of the system, while meeting the minimum requirements regarding quality of service, without discrimination, within 24 months of the commencement of provision of the service in return for payment.
- 60.5 Upon written application from the Licensee, the Director may permit the Licensee limitations on the provisions of clause 60.4, after being convinced that there is a real difficulty in supplying the service to all who request it, and that certain characteristics of the service give special and extraordinary grounds and justification for such.
- 60.6 (a) The licensee shall supply, with consideration or without, any of its services that the subscriber has not specifically requested, except for a service provided free of charge to all subscribers, and shall not allow the provision of a service provider that the subscriber has not specifically requested to receive;

For this matter, "service provider"- a provider of a service through the network and the payment for the service is done through the telephone bill.⁸⁸

⁸⁷ Amendment No. 14

- ⁸⁹(b) An explicit request may be made in one of the following manners:
- (1) A signed document by the subscriber that is sent to the Licensee;
 - (2) An electronic mail sent by the subscriber to the Licensee;
 - (3) A telephone call between the subscriber and the Licensee representative;
 - (4) An SMS sent by the subscriber to the Licensee;
 - (5) ⁹⁰Service order on the Licensee's website or content provider. A service order shall be done in accordance with the provisions of Annex F of the License;
- (c) The Licensee shall keep in its possession documentation regarding the subscriber's explicit request ⁹¹during the entire commitment period of the subscriber, and if the subscriber does not have a commitment period, for at least the last eighteen (18) months, as well as for a year after the date that the last bill is sent to the subscriber, as set forth in article 2.3 (c) (2) to Appendix E; the documentation shall be available at the Licensee for presentation to the Director, within five (5) working days from the date of the subscriber's explicit request. For this matter-"**documentation**"-
- For sub-section (b)(1)-a copy of the document;
- For sub-section (b)(2)-a copy of the electronic mail;
- For sub-section (b)(3)-a recording of the telephone call;
- For sub-section (b)(4)-a copy of the subscriber's telephone bill that lists under the "call details", the details of the sms sent by the subscriber;

For purposes of sub-section (b)(5)-⁹² a Log from the short message service center (SMSC) of the Licensee in which the sending of the 2 sms from the Licensee to the subscriber are documented, as part of the procedure of ordering a service. If the service was ordered on the Licensee's website or cellular portal by using a user code and password as set forth in section 1.3 of Appendix F of the License-the Log from the internet server that indicates the execution of the service order procedure and the Log In of typing the user code and password by the subscriber.

⁸⁸ Amendment No. 42

⁸⁹ Amendment No. 57-shall become effective September 13, 2011

⁹⁰ Amendment No. 60

⁹¹ Amendment No. 60

⁹² Amendment No. 60

Notes taken by the Licensee representative in the Licensee's information systems does not constitute documentation.

60.7 ⁹³The Licensee is not allowed to collect payment from the subscriber for a service unless it has documentation regarding the subscriber's explicit request to receive the service.

60.8 ⁹⁴If the subscriber is charged for a service and notifies the Licensee that he did not request the service, the Licensee shall refund him the entire sum of that was charged for the service, if the Licensee does not have the documentation regarding the subscriber's explicit request to receive the service. The manner of handling the subscriber's complaints granting the refund shall be executed in accordance with the provisions regarding "overcharging" detailed in article 83A of the license."

9561. **Complaints Officer**

61.1 The licensee shall appoint a person to be responsible for handling complaints of the public ("complaints officer") whose duties will be as follows:

- (i) to check subscriber complaints, including someone requesting to receive a service offered, regarding services of the licensee;
- (j) to clarify subscriber complaints regarding bills that the licensee has submitted and to settle them.

the complaints officer shall respond in writing to said complaints submitted in writing. ⁹⁶The Licensee shall keep a copy of the complaint and the written answer that was sent to the subscriber; the said copies shall be available at the Licensee for presentation to the Director, within five (5) working days from the date of sending the answer

61.2 The complaints officer shall act in accordance with the policy outlined by the licensee's management.

61.3 The licensee shall provide the complaints officer with all the assistance required to fulfill his duties.

61.4 The licensee shall notify every subscriber of the option to submit a complaint to the complaints officer, his authority and the various methods of applying to him. The content of this sub-section shall be included in the subscriber agreement, in the bill sent to the subscriber and on the website of the licensee.

⁹³ Amendment No. 57

⁹⁴ Amendment No. 57-shall become effective September 13, 2011

⁹⁵ Amendment No. 41

⁹⁶ Amendment No. 57

61A. Dispute Settlement

- 61A.1 The subscriber agreement shall state that all disagreements that arise between the licensee and a subscriber, regarding the interpretation or implementation of the subscriber agreement, shall be assigned to arbitration to the licensee's complaints officer.
- 61A.2 The subscriber agreement shall state that an application to the complaints officer in accordance with article 61.1A, shall not:
- (a) prevent the subscriber from bringing the matter before the appropriate court;
 - (b) derogate from the authority of the licensee to act in accordance with the provisions of article 72 regarding termination or complete termination as a result of a breach of the subscriber agreement.

62. Obligation of Maintenance

- 62.1 The Licensee is responsible for the maintenance of the MRT System.
- 62.2 Should the Subscriber purchase MRT Terminal Equipment from the Licensee or its agents, and the purchase agreement should include maintenance services, the Licensee will be responsible for maintaining the above mentioned Terminal Equipment, however the Licensee will not be responsible for maintaining Terminal Equipment which was purchased, as stated, after the maintenance period undertaken by the manufacturer, unless otherwise agreed between it and the Subscriber; should the maintenance services include insurance services, the insurance service will be provided after receipt of the permits required by any law.
- 62.3 Should the Subscriber use, for the reception of MRT Service, MRT Terminal Equipment which was not purchased from the Licensee or its agents, the Licensee will not be obliged to maintain this Terminal Equipment, however the Licensee may enter into an agreement with the Subscriber for the provision of maintenance services for this said Equipment as well.
- 62.4 For the matter of maintenance obligation, as aforesaid, this should also mean the provision of spare parts and accessories for Terminal Equipment, including Terminal Equipment of the models offered to the public by the Licensee or its agents, even if the Licensee does not provide repair services for those models.

63.⁹⁷ Call Center

- 63.1 The Licensee shall operate a staffed call center for the receipt of calls of its Subscribers, in addition the Licensee shall apply additional means that will allow its Subscribers to contact it in order to receive information and to make inquiries, as set forth in Appendix E of the License.
- 63.2 The Call Center will be staffed by a skilled and professional employee team, with the necessary qualifications to handle the calls. Should a call be received regarding a fault which caused complete cessation of the Subscriber MRT services, the said team will act immediately to locate the fault and will begin taking measures to immediately repair the fault.
- 63.3 The Licensee shall detail in the maintenance diary the details of the fault as set forth in Article 63.2 and the steps taken to rectify the fault, all as set forth in Article 51."

64. Terminal Equipment

- 64.1 The Licensee will submit to the Director the specifications of the Terminal Equipment which are compatible with the MRT Network, and will assist, in accordance with the Director's requirements, in converting them to Israeli standards or the Ministry's standards, or to standards and specifications as aforesaid; the Director will present requirements which differ from those of European standards only for the purpose of adapting the specifications of the Licensee to Israeli standards, to the standards of the Ministry, in order to integrate the Hebrew language, to prevent interferences to other systems and interferences from other systems, and in order to achieve compatibility with the Telecommunication Networks in Israel.
- 64.2 The Licensee will carry out, free of charge, tests to verify that the Terminal Equipment meets the specifications of the MRT Network, in accordance with the Director's requirements; testing of Terminal Equipment as aforesaid will be finished within fourteen (14) days from the date of the Director's requirement.
- 64.3 The Licensee may sell or lease its Subscribers MRT Terminal Equipment for connection to the MRT Network, provided all the following are fulfilled:
- (A) The Licensee has notified the Subscriber that he or she is entitled to purchase MRT Terminal Equipment both from any authorized dealer in Israel and from an overseas dealer, where the Equipment manufacturer confirmed that the Equipment is similar in its features and options to the Terminal Equipment marketed by the Licensee, and that the Subscriber is not obliged to purchase the Equipment from the Licensee in order to receive MRT Services;
 - (B) The Licensee will not make the provision of maintenance services for MRT Terminal Equipment conditional to obtaining MRT Services from it, and will inform the Subscriber that he or she may receive Maintenance Service for Terminal Equipment from any person, including Terminal Equipment purchased or leased from the Licensee.

⁹⁷ Amendment No. 55

⁹⁸64A **Grant of a Benefit to a Subscriber**

64A.1 The Licensee shall not link any benefit for MRT services it provides to a subscriber, including a credit, discount, special tariff plan, basket of services etc, (hereinafter in this section – "**the Benefit**"), to the fact that the MRT handset held by the subscriber was purchased, rented or received from the Licensee or from another dealer on its behalf. In this regard, the Licensee shall offer the same Benefit it offers when a subscriber purchases or rents from it a certain model of an MRT handset to any subscriber that uses an MRT handset similar to the said model as far as its characteristics and that will be given to the subscriber during a period of no less than the period for which a monetary credit is given to a subscriber that purchases a handset from the Licensee, and in accordance with the following rules:

- (a) If the model of the handset held by the subscriber is identical the model marketed by the Licensee at the time that the subscriber approaches the Licensee, the Licensee shall offer the subscriber the same Benefit to the one it give to a person that purchases that model from it, based on a Purchase Confirmation that the subscriber will provide;
- (b) If the model of the handset held by the subscriber is not marketed by the Licensee at the time that the subscriber approaches the Licensee, the Licensee shall offer the subscriber a Benefit in accordance with the Handset Classification of the handset determined by the Licensee in advance and based on a Purchase Confirmation that the subscriber will provide;

In this sub-section-

"**Handset Classification**-" the division of the models of handsets that are not marketed by the Licensee to no more than six types, and the determination of the level and conditions of the Benefit that will be given in regard to each type; and this will be in accordance with the level and conditions of the Benefit that the Licensee provides in regard to the handset models that it markets, that are handset models with similar characteristics;

- (c) At the time of calculation of the period during which the Benefit will be given in accordance with sub-sections (a) or (b), the Licensee shall be entitled to take into account the date on which the handset was purchased by the subscriber, as it appears in the Purchase Confirmation.

⁹⁸ Amendment No. 51

In this section- "**Purchase Confirmation**"- any confirmation that indicates the purchase of the handset, that includes among other things, the date of the purchase and the price that was paid.

64A.2 The Licensee shall present on its internet website updated information regarding the Handset Classification that it does.

65. Public Emergency Services

65.1 ⁹⁹The Licensee will enable, at any time and free of charge, all its Subscribers free and rapid access to public emergency services, such as: Magen David Adom, the Israel Police Force and the Fire Department..

¹⁰⁰**65.2** The Licensee shall enable the public emergency service centers¹⁰¹ to identify the telephone number of a subscriber that dials them¹⁰², free of charge and at any time, including a subscriber with an unlisted number, a subscriber that implemented barring a call and a subscriber that dials from a private switchboard, effective 5 April 2007 (hereinafter-"**the commencement date**");

The Licensee may implement the aforesaid through a licensee that routes the call to the public emergency service center.

No later than 2 days¹⁰³ from the commencement date, the Licensee shall notify all its subscribers, in writing, and in a clear manner, that as of the commencement date, the subscriber's number will be identifiable by the public emergency service centers, and shall also notify in writing all subscribers that request an "unlisted number"-that the number will not be unlisted for calls made to the public emergency service centers.

¹⁰⁴**65A. Blocking Service for Harassing Subscribers**

65A.1 Notwithstanding the abovementioned in Article 65.1, the Licensee shall block access to public emergency services for Harassing Subscribers; if the access to public emergency services only is not technically possible, the Licensee shall block the Harassing Subscriber's access to all MRT services. For this Article, "Harassing Subscriber"-a subscriber that calls a certain public emergency service, without a justified reason, more than 10 times during one day, through Terminal Equipment in his possession.

⁹⁹ Amendment No. 19

¹⁰⁰ Amendment No. 40

¹⁰¹ Israel Police-100, Magen David Adom-101 and the Fire Department-102

¹⁰² Excluding a subscriber whose terminal equipment allows him to dial emergency centers only, for example a handset without a SIM card on a GSM network.

¹⁰³ Amendment No. 42

¹⁰⁴ Amendment No. 19

- 65A.2 Notice regarding a Harassing Subscriber shall be given in writing to the Licensee by a senior employee of a public emergency service ("the Employee"), verified by an affidavit signed by the Employee ("the Complaint"). The Complaint shall include, among other details, the name of the Harassing Subscriber, his phone number, as far as these details are known to the complainant, as well as details of the times of the calls of the Harassing Subscriber and the content of the calls that indicates that the calls were made without a justifiable reason. If the Complaint does not include the Harassing Subscriber's phone number, the Licensee shall act in a reasonable manner to identify the Harassing Subscriber based on the details in the Complaint.
- 65A.3 The Licensee shall block the Harassing Subscriber's access to the emergency services as set forth in Article 65A.1, after giving the Harassing Subscriber prior notice. The notice shall be given 3 working days before blocking the service, in one of the following manners:
- a. A call from the Licensee's service center to the Terminal Equipment of the subscriber;
 - b. Sending an SMS to the Terminal Equipment of the Subscriber;
 - c. Sending a registered letter to the Subscriber; except a Pre-Paid subscriber whose address is unknown.
- 65A.4 Blocking service, to a Harassing Subscriber that is a Pre-Paid subscriber whose address is unknown, shall be done no later than 24 hours from the receipt of the Complaint or identification as set forth in Article 65A.2.
- 65A.5 Notwithstanding the abovementioned in Article 65A.1, the Licensee shall not block a subscriber's access to the public emergency services, if the circumstances of the calls made, based on the explanation the subscriber provides to the Licensee show that there was a justification for the calls and he should not be deemed a Harassing Subscriber; The Licensee shall provide the Director with the reasons for not blocking access for the Harassing Subscriber within 10 working days from receipt of the Complaint or identification as set forth in Article 65A.2.
- 65A.6 If the Licensee blocks the Harassing Subscriber's access to the emergency calls as set out above, he may collect from the subscriber all charges and may also be entitled to collect from him payment to remove the blockage.

- 65A.7 The Licensee is permitted to remove the blockage after the HarassingSubscriber provides him with a written undertaking that he will not repeat the harassment in the future.
- 65A.8 The Licensee shall record the manner of identification of the Harassing Subscriber, manner of notifying the Harassing Subscriber or alternatively where notice was not given to the Harassing Subscriber, the reason for not giving notice; In addition, he shall record the manner in which the blockage was removed.
- 65A.9 The Licensee shall provide details in the Harassing and SubscriberReport, as set forth in Article 104.4 (i)¹⁰⁵ , of the number of Harassing Subscribers whose access to the public emergency services or to all MRT services, has been blocked based on this Article, as well as the number of subscribers whose blockage has been removed and the number of subscribers whose access was not blocked based on this Article and the reasons for that.

¹⁰⁶65B. **Personal Message Service**

- 65B.1 The Licensee shall provide a personal message service (in this section, the "**Service**"), at all times and free of charge, to all its subscribers, including to the subscribers of another licensee, users of handsets that support the Service (hereinafter in this section the "**Subscribers**"), and in accordance with the "personal service" service file.

In this section:

"**Another Licensee**" – another MRT licensee that receives service through national roaming or an MVNO that receives service through a hosting agreement on a licensee's network;
"**Personal Message**" – a message, warning and short explanation of the security forces that is sent immediately, selectively and focused to subscribers with MRT handsets that support the use of the cell broadcast ("CB") technology.
"**Security Forces**" – representatives of the Ministry of Defense and Home Front Command that are responsible for personal message system;

¹⁰⁵ Amendment No. 41

¹⁰⁶ Amendment No. 73

"Service File "Personal Message" – a service file approved by the Director, including amendments that will be executed in the service file;

- 65B.2 In order to execute the above mentioned in Article 65B.1, the licensee shall act as set forth in the First Appendix and in the service file regarding this service and as follows:
- a) Adaption of the network and its components so that it will support the provision of the personal message service, excluding the network components that operate under the iDEN or CDMA technology;
 - b) Assistance and resource allocation to execute the access of the personal message service of the Security Forces to the network;
 - c) Operation and maintenance of the Service components in the network, in accordance with written directions that will be presented to the Security Forces; without derogating from the aforesaid, the Security Forces may instruct the Licensee to change the said instructions, however this will not derogate from the Licensee's responsibility to repair and access the network;
 - d) The execution of technical trials to examine the integration between the system and the network and the exercise of the network and system operation, in accordance with the instructions of the Office and the Security Forces.
- 65B.3 The Licensee shall report to the Security Forces any gap in the ability to supply the Service and will act to restore the ability as soon as possible, in accordance with the written operation instructions that it will formulate and present to the Security Forces.
Without derogating from the aforesaid, the Security Forces may instruct the licensees to change the operation instructions if they find them to be lacking, however this provision does not limit the responsibility of the aforesaid licensee.
- 65B.4 The Licensee shall notify the Security Forces in advance of any change to the network that may affect availability for provision of the Service.
- 65B.5 The Licensee may not make commercial use of the CB characteristic without the Security Forces' prior knowledge of at least 30 days before operating the Service and the Security Forces may notify him in writing within 15 days of their objection to the provision of the service or conditions for providing the said Service. In this case, the Licensee will not operate the Service or will only be able to operate it in accordance with the conditions determined by the Security Forces, according to the merits.
The aforesaid does not detract from the License's obligation to receive the Director's approval to the said service.
- 65B.6 The Licensee will assist in launching the Service for its subscribers in all of the following manners:
- a) By written publicity on the company's website;
 - b) By direct mail to subscribers through the monthly bills upon launch of the Service;
 - c) ¹⁰⁷By providing a response to subscriber inquiries to choose the necessary specifications on his handset; for cellular handset models that were not marketed by the License, the License will make a reasonable effort to give its subscribers an answer;
 - d) The Licensee will allow the Security Forces to reasonably use its existing distribution channels in order to notify the subscribers of the Service.

66. Protection of Subscriber Privacy¹⁰⁸

- 66.1 Without derogating from the provisions of the Law, the Secret Monitoring Law, 5739-1979, the Protection of Privacy Law, 5741-1981, or any other law regarding protection of the privacy of a person, the Licensee shall not be entitled to listen to the telephone or any other communication of a Subscriber without the Subscriber's written consent, other than for the purpose of quality control of the service or the prevention of fraud.
- 66.2 Subject to the provisions of clause 66A, the Licensee, its employees, agents and any person acting on its behalf shall not be entitled to disclose lists or documents containing the name and address of a Subscriber or any other information regarding a Subscriber, including account details, call traffic, times and destinations to any person other than the Subscriber or a person authorized by the Subscriber for such.
- 66.3 Notwithstanding the provisions of clause 66.2, the Licensee may do the following:
- (a) provide details of the Subscriber to another licensee for the purpose of collection of monies owing from the Subscriber for services provided to it via the Network, provided that the details so provided are essential for the purpose of collecting money and accounting and that the other licensee has undertaken to maintain the privacy of the Subscribers;
 - (b) provide the details of a Subscriber, to the extent that such details are in its possession, to another person under any power at law.

¹⁰⁷ Amendment No. 79

¹⁰⁸ Amendment No. 14

66A ¹⁰⁹Services to the Security Forces

- 66A.1 The Licensee shall supply special services to the Security Forces, as set out in the Security Appendix (Confidential) attached to this License as Appendix K.
- 66A.2 The Licensee shall allow the Security Forces, as identified by the Director in writing, to exercise, subject to any law, their powers in respect of any telecommunications operation under the License, and shall be responsible for ensuring the existence, proper operation and technical adaptability of the equipment and infrastructure required to enable such performance, all in coordination with the Security Forces and as set out in Appendix K; the Security Forces shall bear payment under the provisions of section 13 of the Law.
- 66A.3 The Licensee shall be exempt from the obligation to indemnify the State under the provisions of clause 91.2 of the License and/or under any law, for the provision of the special services to the Security Forces.

66B. Security Provisions

- 66B.1 The Licensee shall appoint a security officer in accordance with the provisions of the Security Arrangements in Public Bodies Law, 5758-1998, and shall strictly adhere to the security provisions set out in Annex L to the License.
- 66B.2 The Licensee shall set out appropriate provisions in its foundation documents and regulations and shall act so that no person shall be appointed to act in a position or role set out in Annex L to this License unless he meets the following conditions:
- (a) he is an Israeli citizen, as defined in the Citizenship Law, 5712-1952, and a resident of Israel;
 - (b) he has been given a security clearance from the General Security Services, under which there is nothing to prevent his so acting.
- 66B.3 The Licensee shall act to keep the activities of the Security Services confidential and shall act in accordance with the security instructions of such Security Services, including with regard to the appropriate security classification for Office Bearers and persons with roles at the Licensee and the classification of information regarding the activities relating to the Security Services.
- 66B.4 The Licensee shall take such steps as are required in order to protect the system, components of the system, and the databases serving for the provision of services, operation and control of the system against the activities of unauthorized persons, under the provisions set out in Annex L of this License

¹⁰⁹ Amendment No. 3

67. Subscribers' Bills¹¹⁰

- 67.1 The bill the Licensee will present to the Subscriber will be clear, concise, legible and comprehensible; the bill will include precise details of the components of the required payments in accordance with the types of payments and the rules detailed in Chapter F.
- 67.2 ¹¹¹Cancelled
- 67.3 The Licensee is entitled to collect payments for its services from the Subscriber through another party, including through the Bezeq Corporation.
- 67.4 (a) Without derogating from all other provisions of the License regarding the manner in which the Subscriber's bill shall be set out and the method of billing, the Licensee shall act in accordance with the Israeli Standard 5262, that concerns the credibility of the charge and full disclosure in phone bills (hereinafter in this article – "the Standard").
- (b) Sub-section (a) constitutes a "service condition", in regard to Article 37B (a)(1) of the Law.
- (c) Despite the aforesaid in sub-section (a)-
- (1) With regard to the provisions of section 2.2.2 of the Standard, the rounding of numbers method shall be implemented in accordance with the following:
- ((a)) An amount in a bill will be rounded to the nearest number that ends with two digits after the decimal point of the Shekel, and an amount that ends with five tenths of an Agora (three digits after the decimal point), shall be rounded up.
- ((b)) An amount for payment of a single call shall be rounded to the nearest amount that ends with three digits after the decimal point of the Shekel, and an amount that ends with five hundredths of an Agora (four digits after the decimal point), shall be rounded up.

¹¹⁰ Amendment No. 14

¹¹¹ Amendment No. 57

(2) The Licensee may present any amount included in the bill in a more detailed manner than required in accordance with the provisions of section 2.2.2 of the Standard, as long as the rounding of numbers method applies as set forth in sub-section (c)(1) above.

(3) The price of a phone call (voice) that includes a Variable Tariff, shall be presented in a bill to a subscriber as the average price per minute, that shall be calculated in accordance with the amount for payment for that call, divided by the total sum of minutes of the call.

In this section, "Variable Tariff"- a tariff that changes during the course of the call based on different parameters, for example, a tariff that is reduced based on the higher the usage or a variable tariff as a result of changing from "peak time" to "off peak time" during the course of the call or vice versa.

(4) In addition to the provisions at the end of section 2.2.4 of the Standard regarding the Basket of Services, the bill shall include a detailed list of the services that are included in the basket as well as the total tariff to be paid for the basket.

In this section, "Basket of Services"-a number of services that are marketed to a subscriber as a package in exchange for an all inclusive tariff (and without detailing the payment for each individual service).

(d) (1) Chapter B of the Standard regarding full disclosure in phone bills shall become effective no later than Friday, 18 Tishrei, 5766 (14.10.2005).

(2) Chapter C of the Standard regarding the credibility of the charge shall become effective no later than Sunday, 15 Tevet 5766 (14.1.2006).¹¹²

¹¹³67.5 A bill that is sent to a Non-Business Subscriber shall be in the format set forth in Annex E1 (hereinafter for this Article- " Non-Business Subscriber Bill Format").

11467.5A A bill submitted to a business subscriber shall include the details set forth in sub-sections 9B (1) to 9B (4) in Appendix E1 of the License." In this section "business subscriber"-except for the subscribers detailed in sub-sections (b) and (d) of the definition of "business subscriber" in article 1 of the License.

¹¹² Amendment No. 33

¹¹³ Amendment No. 50

- 67.6 A Business Subscriber may request that the Licensee send him a telephone bill in a Non-Business Subscriber Format (hereinafter in this Article-"Request"). If the subscriber makes such a request, the Licensee shall begin sending him bills in accordance with said format, no later than two bill periods from the date of the Request. The Licensee shall publish bi-annually, a notice in the telephone bill sent to Business Subscribers, that the Business Subscribers may request that the Licensee format their telephone bill in accordance with the Non-Business Subscriber Bill Format. ¹¹⁵In addition, a business subscriber may request from the Licensee details in writing regarding the calculation manner of a "one time charge". The Licensee shall submit to the business subscriber the said details in writing regarding a "one time charge", within thirty (30) days from the date that the subscriber requested the matter from customer services or the person responsible for handling complaints of the public
- 67.7 The bill shall be sent to the address recorded by the Licensee or any other address supplied by the Subscriber to the Licensee, or by any other means if the Subscriber has given prior specific consent; The Licensee may not request any type of payment for issuing and sending the bill to the subscriber. The Licensee may request reasonable payment for "detailed calls" sent to the subscriber upon the subscriber's request.
- 67.8 ¹¹⁶If the payment detailed in the telephone bill is done by debit bank payment or credit card, the said payment shall not be done before ¹¹⁷eight (8) days have passed from the date that the telephone bill was sent to the subscriber.

¹¹⁸
¹¹⁹**67A. Information Service for Telephone Number Enquiries**¹²⁰

- 67A.1 Without derogating from the aforesaid in Article 66, the Licensee shall provide, either by itself or through another on its behalf, an information service for the enquiry of telephone numbers of all subscribers of land line operators or MRT operators, except for classified subscribers hereinafter-"information service"), as follows:
- (a) for the general public and cost free, through an internet site that will provide the service;
 - (b) for its subscribers, at a reasonable cost, through a telephone center to which the the access will be provided by a network access code to be determined by the Director;
 - (c) the information service shall be provided by all of the above methods based on the same information features that the subscriber will provide when he requests the service.

¹¹⁵ Amendment No. 57
¹¹⁶ Amendment No. 57
¹¹⁷ Amendment No. 58
¹¹⁸ Amendment No. 50
¹¹⁹ Amendment No. 14
¹²⁰ Amendment No. 38

- 67A.2 Without derogating from the aforesaid in Article 67A.1, the Licensee shall provide to the general public and cost free, either by itself or through another, an information service to enquire about a phone number of any subscriber, except a classified subscriber, through a telephone center to which the access will be provided by a national access code to be determined by the Director.
- 67A.3 In addition to the above-mentioned in Articles 67A.1 and 67A.2, the Licensee may offer, at a reasonable price, either by itself or another on its behalf, an information service, through any other method, including a national access code or through a short message system service (SMS).
- 67A.4 For the execution of the aforesaid in Article 67A.1 and 67A.3:
- (a) The Licensee may approach any database of a line operator or MRT operator (hereinafter in this article – "**another licensee**") with a question, or receive information from a database of another licensee through any other method and with the consent of the other licensee, all subject to the obligation regarding protection of the subscriber's privacy;
 - (b) For the provision of the information service by another licensee in accordance with its general license, the Licensee shall allow any other licensee access to the Licensee's database;
 - (c) The Licensee shall regularly update the database, so that every name, address or telephone number of a subscriber that has been added, changed or removed, shall be updated in the database within one working day after the implementation of the update in the Licensee's system for the provision of telephone services.

For this Article-

"**database**"- a pool of data that includes the name, address and telephone number of every subscriber that is not classified, including a subscriber that is a business.

- 67A.5 (a) The Licensee shall obtain the consent of every new subscriber in order to include their details in the database; if the subscriber consents to the aforesaid, the Licensee shall include the subscriber's details in the database.
- (b) The Licensee shall comply at no cost with every subscriber's initial request to remain classified. In this Article, "**new subscriber**" – a subscriber that registered with the Licensee after the commencement date as set forth in Article 67A.7 below.
- 67A.6 (a) The conditions for the provision of information service to enquire about telephone numbers in accordance with Article 67A shall be determined by the Licensee, provided that they are fair and non discriminatory, including presentation of the data to those requesting the service; the service shall be provided twenty four (24) hours a day, every day of the year, except for Yom Kippur; in this Article, "**presentation of the data**"- if the answer to a question of a person requesting the service consists of a number of different data, the data shall be presented in a coincidental manner;
- (b) The response to the information service for telephone number enquiries as set forth in Article 67A.2, shall be done within a reasonable amount of time; if the Director is of the opinion that the waiting time for the service is unreasonable, he may set standards for response time.
- (c) Information service for telephone number enquiries as set forth in Article 67A.1 (b) and Information Service through a telephone center to which the access shall be provided by a national access code as set forth in Article 67A.3 shall meet the following service standards:
- (1) at any time, except in cases of heavy traffic of calls requesting the service¹²¹, the amount of callers that will receive service shall not be less than 90%;
 - (2) the average waiting period of a caller until the start of receiving service¹²² shall not exceed 30 seconds;
 - (3) the maximum waiting period of a caller until the start of receiving service shall not exceed 60 seconds.
- 67A.7 Article 67A shall become effective on 8 February 2007 excluding Article 67A.1 (a) that will become effective on 15 March 2007 ("**commencement date**") but excluding Article 67A.2.¹²³

¹²¹ *Busy Hour Call Attempts*

¹²² *Start of receiving service-an answer by a telephone operator or by the IVR system that requests the information from the caller in order to locate the requested telephone number etc.*

- 67A.8 The Licensee, either itself or through another, including together with another licensee, shall publish all of the information services for telephone number enquiries that are provided by the licensee at no cost as well as the national access codes that have been allotted to the MRT Licensee for the provision of the service (hereinafter **cost free information services**"); the publication shall include at least the following:
- (a) an internet site of the Licensee;
 - (b) at least bi-annually, the Licensee shall include together with the subscriber's bill a separate page ¹²⁴regarding cost free information services, that should not include any other information, beginning with the first bill sent to a subscriber after the commencement date.
 - (c) at least four (4) times during the first year after the commencement date, the Licensee shall publish large and prominent advertisements in at least 3 of the most common newspapers in Hebrew and the most common newspaper in Arabic, English and Russian as well as in the most common financial newspaper; these advertisements shall not include any other information. The first publication regarding cost free information services shall be in the above detailed newspapers, except for the financial newspaper, which shall be on the first Friday after the commencement date or the following one and in the financial newspaper on the first Tuesday after the commencement date of the following one.

Without derogating from the above-mentioned, the Minister may instruct the Licensee regarding the manner and format for the publication of the information services.

67B. ~~Deleted~~¹²⁵

67C. Service File

- ¹²⁶67C.1 If the licensee wishes to activate a service that is included in the list of services listed in the First Appendix and titled "future", it shall notify the director in writing no later than thirty (30) days before the date it intends to begin supplying the service.

¹²³ Amendment No. 42

¹²⁴ Amendment No. 41

¹²⁵ Amendment No. 41

¹²⁶ Amendment No. 41

- 67C.2 If the licensee wishes to activate a new service that is not included in the list of services listed in the First Appendix that it intends to supply to any of their service recipients, it shall notify the director in writing no later than thirty (30) days before the date it intends to begin supplying the new service.
- 67C.3 The director shall notify the licensee within thirty (30) days of receipt of the notice of the licensee as set forth in Articles 67C.1 and 67C.2, if it is allowed to begin supplying the service or if it needs to submit a service file for the director's approval, as a condition for beginning the service.
- 67C.4 The licensee shall submit a service file for the director's approval upon his demand; if the licensee shall not submit a service file upon the director's demand, or if the director does not approve the service file, the licensee shall not begin supplying the service.
- 67C.5 The director's decision regarding the service file submitted to him shall be given within sixty (60) days from the day that the licensee submitted to the director all the required documents and information for the approval of the service file. In special cases, the director may extend the dates set forth in this article, in a written and detailed notice to the licensee.
- 67C.6 The director may require the licensee to submit for his approval a service file for an existing service, that does not require a service file, and he may also require the licensee to submit for his approval a new service file for a service for which a service file has already been approved.
- 67C.7 The service file shall be submitted to the director in a format and at a time set forth by the director and shall include, among other things, provisions regarding the following: the name of the service, a detailed description of the service and the supply method, the service tariff, an engineering description, and all in accordance with the First Appendix; the director may advise of additional details that should be included in the service file.
- 67C.8 If the service file is approved, the licensee shall supply the service in accordance with the conditions of the approved file and the approved service file shall be considered an integral part of the license.
- 67C.9 The licensee shall publish the approved service file, with the details and in a manner set forth by the director, and the director may publish it himself, as long as he does not do so until after the licensee begins supplying the service. The notice to the public shall not include information that are trade secrets, that have been noted by the licensee and attached as a separate annex marked as trade secrets to the service file.

67C.10 Each new service file that the licensee shall begin supplying in accordance with this article, will be considered part of the First Appendix; the director shall update the Appendix from time to time.

67.11C The provisions of this article shall apply with the necessary changes for tests by means of the network of the licensee.

67D¹²⁷ Adult Voice Services

Adult Voice Services provided through the Network, shall be done in accordance with the provisions of Annex "M", in the Second Supplement .

For the purpose of this Article-

"Adult Voice Services"- as defined in Article 1 in Annex M, in the Second Supplement.

67D.1¹²⁸Premium Service

¹²⁹67D1.1 The Licensee may provide Premium Services in one of the following manners:

- a) Premium Service, for which the payment is charged according to the Premium Tariff and is collected through the Telephone Bill shall be provided in accordance with the provisions of Appendix N.
- b) Premium Service, for which the payment is charged according to the Regular Tariff (hereinafter in this sub-section "the **Service**") will be provided as follows:
 - 1) As an internal network service through a network access code¹³⁰;

¹²⁷ Amendment No. 22

¹²⁸ Amendment No. 75

¹²⁹ Amendment No. 76, 80

¹³⁰ "Network access code" as defined in the numbering plan.

- 2) By dialing a Fixed-line telephone number to which the access will be possible for each subscriber of the subscriber of a General Licensee.

For this article,

"Fixed-line telephone number" - a number format of geographic numbers and national fixed line numbers or number format star 4 digits (*XXXX), in accordance with that defined in the numbering plan¹³¹.

"Premium Service" and "Premium Tariff" as defined in Appendix N

13267E National Roaming

67E.1 The Licensee shall supply National Roaming services through its network to a Roaming Licensee to the Roaming Licensee's subscribers to the network of the host operator, as detailed below.

67E2. Preparation of the Licensee

The Licensee shall prepare for the execution of National Roaming in accordance with the following:

- a) The provisions of Appendix X in the Second Annex;
- b) The provisions of the law and the license regarding enabling use of its network and particularly Articles 30 through 30C, with the necessary changes.

67E.3 Operational arrangement

- a) If the Roaming Licensee shall notify the Licensee in writing, after notifying the Minister that it did not reach an agreement with any of the existing Licensees regarding the conditions for the provision of roaming services as set forth in Article 5B(b)(1) of the Law, that it has chosen that Licensee for the receipt of National Roaming services (in this section "**the notice**"), the Licensee and the roaming operator shall provide the Minister with the engineering and operational details that they have agreed upon between themselves regarding the implementation of National Roaming ("**operational arrangement**"), within three months from the date the notice is sent. In addition, the said operators shall include the required engineering and operational details in order to maintain National Roaming that were not included in the operational arrangement, due to disagreements, if there are any;
- b) Issues that are not agreed upon, as set forth in sub-section (a) above, if there are any, shall be decided by the Director. The directions of the Director for this matter shall form an integral part of the operational arrangement.

¹³¹ For example numbers in the format 03-XXXXXXX and 07Z-xxxxxx or *XXXX

¹³² Amendment No. 59

67E.4 Commencement date of National Roaming implementation

The host Licensee shall begin providing National Roaming services in accordance with the operational arrangement no later than three months from the date that the Roaming Licensee presented to the host Licensee the Minister's confirmation as set forth in section 5B(b)(2) of the Law.

67F. International Roaming Service through the Network of the MRT Operator in the Neighboring Country

67F.1 The Licensee shall act so that in an area in which there is reception that allows the initiation of a proper call, from the network as well as from the network of the MRT operator in the neighboring country, the subscriber shall receive MRT service through the network. The Licensee shall perform the action itself without requiring any action on behalf of the subscriber.

67F.2 The Licensee shall block the possibility of the subscriber to receive international roaming service through the network of the MRT operator in the neighboring country ("**the Service**"), unless the subscriber explicitly requested to receive the Service, and after it was explained to him that as part of receipt of the Service, the handset in his possession may roam in the area of the border with the neighboring country, involuntarily, onto the network of the neighboring country, and that he was advised of the tariffs for the Service; if the subscriber requests to receive the said Service-

- a) The Licensee shall explain to him how he may manually select, through the handset in his possession, the MRT network from which he will receive service;
- b) The Licensee shall allow the subscriber to select whether to block access for receipt of data communications service through the MRT network of the neighboring country.

67F.3 In this section, "**neighboring country**" -Jordan and Egypt;
"**Proper call**" - a call that takes place in accordance with the minimal reception definitions set in the international standards according to which the network operates.

67G Offensive sites and content¹³³

- 67G.1 The Licensee shall notify its subscribers with respect to offensive sites and content as defined in section 4i of the law, as set forth in section 4i(b)(1) of the law; said notification shall be done in the manner set forth in section 4i(c) of the law.
- 67G.2 The Licensee shall notify its subscribers with respect to the existence of internet content that is unsuitable for children and teenagers (for example pornographic sites), and will include a list of ways in which the access to such content by children and teenagers can be blocked; said notification shall be done in the manner set forth in section 4i(c) of the law.
- 67G.3 The Licensee shall offer its subscribers, in all of the ways set forth in section 4i(c) of the law, an effective service for filtering offensive sites and offensive content at no extra cost to the payment that he charges for the internet access service, and all as set forth in section 4i(d) of the law, as long as the said service shall be based on an analysis of the information and not a "black list" of only sites.

¹³³ Amendment No. 65

Section C - Delay or Limitation of Service

68. Definitions

“**Disconnection of Service**” - temporary termination of MRT Services to the Subscriber;

¹³⁴“**Complete Disconnection**” – complete disconnection of all Licensee services to the Subscriber;

“**Termination of Service**” - complete termination of any Licensee services to the Subscriber;"

69. Prohibition of Termination or Disconnection of Service

The Licensee is not entitled to terminate or disconnect MRT Services and other services, which the Licensee is obliged to provide in accordance with this License, unless that which is stated in this part, or that stated in Paragraph 48 exists.

70. Disconnection of Service at the Subscriber's Request

70.1 A Subscriber may request from the Licensee temporary disconnection of service for a period the duration of which is no less than thirty (30) days and does not exceed ninety (90) days (hereinafter: “The Disconnection Period”); the Subscriber’s request will be in writing, and may be carried out through the MRT Terminal Equipment in his or her possession, provided the Licensee has verified the credibility of the request by a return call to the Subscriber’s MRT Terminal Equipment or in any other reliable way.

70.2 The Licensee will implement Disconnection of Service no later than three (3) minutes after verifying the validity of the request.

70.3 The Licensee will renew MRT Services to the MRT Terminal Equipment in the possession of the Subscriber on the completion of the Disconnection Period; should the Subscriber request, in a written notification, to renew MRT Services to the MRT Terminal Equipment in his or her possession prior to the completion of the Disconnection Period, the Licensee will renew the services no later than one working day after the day on which the Subscriber gave his or her notification.

¹³⁴ Amendment No. 57

71. Termination of Service at the Subscriber's Request

- 71.1 A Subscriber is entitled to request ¹³⁵ from the Licensee Termination of Service ¹³⁶or complete disconnection for the Terminal Equipment in his or her possession. For that purpose, the Subscriber may request so in writing from the Licensee, including by facsimile or electronic mail.¹³⁷
- 71.2 ¹³⁸The Licensee shall execute termination of service or complete disconnection, no later than one working day after the date noted by the subscriber in his notice; if no date was noted, the termination of service or complete disconnection shall be executed no later than one working day after the date the notice was given to the Licensee¹³⁹.
- 71.3 The Licensee shall publish on its website and in the invoice it sends to the Subscriber, the facsimile number and the electronic mail address, through which the Subscriber may request Termination of Service from the Licensee.¹⁴⁰
- 71.4 ¹⁴¹The Licensee shall send the subscriber a written notice concerning the discontinuation of a service or the discontinuation of all service. The notice will contain, inter alia, the date of effecting of the discontinuation, and in a notice of discontinuation of all service also the last date for sending the final bill, as stated in subsection 2.3(c)(2) in Appendix E to the License (hereinafter – **the "final bill"**). Notice of discontinuation of a service shall be sent in the telephone bill following the date of the request and Notice of discontinuation of all service shall be sent to the subscriber within one working day from the date that of the discontinuation, by regular post or via e-mail or fax if the subscriber gave his consent thereto. Where the subscriber submitted a request to discontinue a service or to discontinue all service at a service center of the Licensee, the Licensee's representative will give him the aforesaid written notice at the time of the submission of the request.
- A copy of said notice must be kept available by the Licensee for presenting to the Director within five (5) work days from when it was sent or delivered, accordingly. If the Licensee sent the notice via e-mail or fax, the sending confirmation must also be available for presenting to the Director within five (5) work days from when the notice was sent."
- 71.5 After collecting the sum for payment as detailed in the final bill, the Licensee shall not be allowed to collect any payment from the subscriber, by means of payment that the subscriber provided, without the explicit written permission of the subscriber in advance, except for collection of payment for handsets that the subscriber purchased from the Licensee, and that the payment for the handset is carried out in payments as set forth in section 2.3(c)(2) in Appendix E of the License. A copy of the said subscriber agreement, shall be available at the Licensee for presentation to the Director, within five (5) working days from the date it was delivered to the Licensee

¹³⁵ Amendment No. 46

¹³⁶ Amendment No. 57

¹³⁷ Amendment No. 46

¹³⁸ Amendment No. 57

¹³⁹ Amendment No. 46

¹⁴⁰ Amendment No. 46

¹⁴¹ Amendment No. 60

71A.¹⁴² Blocking MRT Terminal Equipment

- 71A.1 The Licensee shall record the identity number of the MRT terminal equipment, except for MRT terminal equipment that works on IDEN technology (hereinafter in this article "**MRT terminal equipment**") of the subscriber:
- (a) at the time the MRT terminal equipment is supplied to the subscriber, at the time the subscriber signs or renews a subscriber agreement, including when MRT terminal equipment is exchanged, upgraded or repaired;
 - (b) In the case of MRT terminal equipment that was not supplied to the subscriber by the Licensee, the Licensee shall make reasonable efforts to advise subscribers that they may record the terminal equipment identification number with the Licensee;
 - (c) At the request of the subscriber from the Licensee; the subscriber's request can be made by telephone after the Licensee has verified the credibility of the request.
- 71A.2 If a subscriber notifies the Licensee that his terminal equipment has either been lost or stolen, the Licensee shall block the terminal equipment of the subscriber that was recorded as set forth in Article 71A.1, free of charge and no later than thirty (30) minutes after verifying the credibility of the subscriber's request. For this Article- "**Block**" –cancelling the possibility of MRT terminal equipment receiving MRT services.
- 71A.3 The Licensee shall provide the details of terminal equipment it has blocked, to any other MRT licensee, no later than one working day after the execution set forth in Article 71A.2.
- 71A.4 ¹⁴³(a) The Licensee is not allowed to supply MRT services to terminal equipment it or another MRT licensee has blocked.
¹⁴⁴(b) Notwithstanding the above-mentioned in Article 71A.2 and sub-section (a), if the blocking of the identification number will cause termination of service for other terminal equipment with the same identification number, the Licensee may choose to not perform the said blocking.
- 71A.5 The Licensee shall cancel the blocking to the terminal equipment it has blocked, after receipt of a request ¹⁴⁵from the subscriber; the cancellation of the blocking shall be done no later than one working day after the Licensee has verified the credibility of the request, unless the subscriber has specifically noted another later date. ¹⁴⁶

¹⁴² Amendment No. 46

¹⁴³ Amendment No. 47

¹⁴⁴ Amendment No. 47

¹⁴⁵ Amendment No. 48

- 71A.6 The Licensee shall publish its obligations to all its subscribers regarding the possibility of blocking MRT terminal equipment, the methods for recording the identification number of the terminal equipment with the Licensee and the application process for the blocking; the publication shall be done in one of the following manners:
- (a) in the subscriber agreement;
 - (b) on the Licensee's website
 - (c) in a separate information page that will be attached to the monthly subscriber invoice, by 30 January 2009¹⁴⁷.
- 71A.7 The Licensee shall detail in a bi-annual report, the number of blocked identification numbers and the amount of identification numbers for which blocking was removed as well as the amount of identification numbers that were not blocked in accordance with this article and the reasons for it.

72. Termination or Disconnection of Service Due to Breach of Agreement

- 72.1 The Licensee is entitled to terminate or disconnect service to a Subscriber if one of the following exists:
- (A) The Subscriber did not pay a payment which he or she owes for the Service he or she has received, on the date determined for payment, in his or her Subscriber Agreement with the Licensee;
 - (B) The Subscriber breached a condition in the Subscriber Agreement between him or her and the Licensee, which has been determined a fundamental condition;
 - (C) The Subscriber has unlawfully used or has permitted another party to unlawfully use the Terminal Equipment in his or her possession.
- 72.2 The Service of a Subscriber will be terminated or disconnected in the events specified in Paragraph 72.1(a) and 72.1(b) only after the Licensee has given the Subscriber notice in writing no less than ten (10) days prior to the expected termination or disconnection; it will be written in the notice that the Subscriber is granted the opportunity, within a reasonable time that will be determined in the notice, to correct the act or omission for which the Service will be terminated or disconnected.

¹⁴⁶ Amendment No. 48

¹⁴⁷ Amendment No. 48

- 72.3 Notwithstanding that stated in Paragraph 72.2, the Licensee is entitled to disconnect the Subscriber's service without notice should one of the following occur:
- (A) The Subscriber did not pay his or her bill of payment he or she was billed for the third time during a period of twelve (12) months for MRT Services on the date determined in the payment notice;
 - (B) There is reasonable concern about an act of fraud through the Terminal Equipment of the Subscriber or through the features of the Terminal Equipment;
 - (C) It became known to the Licensee that the Subscriber has used the MRT Services in a manner that is relatively excessive for that kind of subscription, and after the Service Center approached the Subscriber by calling the Terminal Equipment in his or her possession, and the Subscriber did not produce a reasonable explanation for the said excessive use; for the matter of this Paragraph, use which is less than three (3) times the average use for that kind of Subscribers, shall not be deemed excessive.
- 72.4 The Licensee may disconnect Service of the Subscriber if it is evident that the Terminal Equipment in the possession of the Subscriber, through which the Subscriber attains MRT Services, causes interference in the provision of MRT Services to other Subscribers or interference to the activities of the MRT Network, provided the Licensee gave the Subscriber notice in writing no less than twenty one (21) days before the expected disconnection date; in the notice the cause of the expected disconnection will be specified and the fact that the Subscriber is granted an opportunity, within the time framework that will be determined in the notice, to repair the Terminal Equipment in a manner which will prevent the said interference.

72A.¹⁴⁸ Service Termination for Dormant Subscribers

72A.1 If the Licensee wishes to terminate service for a dormant subscriber, it must give the dormant subscriber prior notice of this intention as set forth below (hereinafter, in this Article "notice"). The date for service termination shall not be less than thirty (30) working days from the date the notice is sent.

72A.2 The Licensee shall note in the notice the telephone number that it wishes to terminate service for.

72A.3 The notice to a dormant subscriber shall be done as follows:

- (a) For a subscriber whose name and address are known to the Licensee, in any of the following ways-
 - (1) by a letter sent by regular mail;
 - (2) by 2 short messages (SMS) that should be sent to the dormant subscriber in intervals of at least two weeks between messages;
- (b) For a subscriber whose name and address are unknown to the Licensee-by four SMSs that should be sent to the dormant subscriber in intervals of at least one week between messages;
- (c) Notwithstanding the above-mentioned in Article (a)(2) and (b), if the subscriber's terminal equipment does not support the receipt of SMSs, the Licensee shall send the subscriber voice messages instead of SMSs, if the subscriber's terminal equipment supports the receipt of voice messages.

72A.4 The Licensee shall not terminate service for a dormant subscriber to whom a message was sent if the dormant subscriber notified the Licensee that he does not wish to terminate service. The subscriber may send such a message either by telephone or in writing including by facsimile or electronic e-mail;

Notwithstanding the aforesaid, the Licensee may terminate service for a dormant subscriber that notified the Licensee that he is not interested in terminating service, after sending the subscriber at least two messages, as set forth in Article 72A.3 (a) and 72A.5 (a), and in the second message the Licensee notified the subscriber that if within one year of the second message the subscriber will not use the MRT service, service will be terminated for the subscriber, and will not have to send another notification.

¹⁴⁸ Amendment No. 46

- 72A.5 The Licensee shall not be allowed to send a subscriber an additional notice regarding its request to terminate service, except after one year from the date when the previous notice was sent to the subscriber.
- 72A.6 The Licensee shall save the telephone number of the dormant subscriber for whom service was terminated for at least three months, from the date of service termination, before returning the number to the telephone number pool of the Licensee itself or be returned to another MRT licensee that originally allocated the telephone number to the dormant subscriber. If during this period a written request is received from the dormant subscriber to renew the service, the Licensee shall renew the service under identical conditions to those that applied before service was terminated, free of charge.
- 72A.7 If the service is terminated for a dormant Prepaid subscriber, that has a remaining balance, the Licensee shall compensate the dormant subscriber for the amount remaining balance within 30 days after receipt of a written request from the dormant subscriber that proves that he is the owner of the line for which service was terminated, if the request is received by the Licensee no later than six months from the date of service termination.
- 72B Disconnection of a Service due to Recovery of the Network during a Malfunction¹⁴⁹**
- 72.1B The Licensee may disconnect or temporarily limit services that it is obliged to provide, in order to allow a quick recovery of the network at the time of a significant malfunction.
- For this matter- "significant malfunction" – a malfunction that causes the disconnection of service to 10% of the subscribers or to at least 100,000 subscribers, the lower of the two.
- In this section, "subscriber" – including a subscriber of an MRT licensee in another network and a subscriber of a roaming licensee that use the network.
- 72.2B The Licensee shall submit for the Director's approval, a procedure and a detailed engineering process for the recovery of the network in case of a significant malfunction ("the **procedure**") within 15 days from the date of signature of this amendment.

¹⁴⁹ Amendment No. 66

- 72.3B During a significant malfunction the Licensee shall act in accordance with the procedure that was submitted to the Director or approved by the Director, the later of the two.
- 72.4B The procedure should include, inter alia, an initiated disconnection of services to subscribers that were not directly affected by the significant malfunction that shall begin no more than two hours after identification of the significant malfunction; this is in order to reduce the burden and the controlled reinstatement of regular and proper service.
- 72.5B The procedure shall allow, as much as possible, preferability for regular and proper services for the security forces, public emergency services and hospitals, as will be decided by the Director.
- 73. Disconnection of Service due to Maintenance Procedures**
- 73.1 The Licensee may temporarily disconnect or limit services which it is obliged to provide, if the requirement to execute vital actions of maintenance or if establishment of MRT Network obliges this (hereinafter "Disconnection due to Maintenance"), provided all the following exist:
- (A) Duration of Disconnection due to Maintenance does not exceed twelve (12) consecutive hours;
 - (B) The number of Disconnections due to Maintenance does not exceed two (2) during one year;
 - (C) Cancelled¹⁵⁰
- 73.2 The Director may require the Licensee to present a detailed explanation of the conditions which oblige Disconnection due to Maintenance, and the Director may require the Licensee to postpone the said Disconnection if he or she finds, after considering the Licensee's arguments, that vital public interest obliges the said postponement.
- 73.3 Should it be required, due to the necessity to perform vital actions of maintenance or construction in the MRT System, to disconnect service for a duration of over twelve (12) hours, the Licensee will request a prior approval of the Director; the request will specify the required maintenance actions and the actions taken by the Licensee in order to expedite these actions and to reduce as much as possible the duration of Disconnection of Service.
- 73.4 Cancelled.
- 73.5 Should Disconnection or limitation of service be required urgently for the purpose of vital and immediate activities, the Licensee will inform the Director immediately, including by telephone, telegram or facsimile message, about the urgent Disconnection or limitation; the Licensee will inform its Subscribers about urgent Disconnection or limitation as stated above as early as possible, including through the MRT System public address service insofar as this is possible, and also through the public media.

¹⁵⁰ Amendment No. 5

73.6 Notwithstanding that stated in Paragraph 73.1, the Licensee is not obliged to notify the Director or its Subscribers as to Disconnection due to Maintenance if the following exist, and that the stated Disconnection will not be counted in the count of Disconnections that is binding under Paragraph 73.1(b):

(A) The duration of the Disconnection due to Maintenance does not exceed half an hour;

(B) Disconnection due to Maintenance, as stated, occurs between 24.00 Saturday night and 0500 on the following Sunday morning.

Chapter F - Payment for Services

Section A - General

15173A. Definitions

In this Chapter:

- “**Air time**” - the time during which a Subscriber receives MRT services, whether the communication was initiated by the Subscriber or by another;
- “**Air time unit**”¹⁵² a time unit of no more than 12 seconds however as of 5 Tevet 5769 (1 January 2009) a time unit of 1 second.
- “**Basked of services**” - a number of services marketed to the Subscriber in a package, for which a tariff has been set as prescribed in clause 75.2;
- “**Public Telecommunications Network**” shall include an International Communications System;
- “**Payment for Call Completion**” a payment made by the initiator of a call, which commences at the Terminal Equipment connected to one Public Telecommunications Network and terminates at another Public Telecommunications Network or at Terminal Equipment connected to such a Public Telecommunications Network for the completion of the call on the other Public Telecommunications Network.

74.1 Types of Payments

The shall be entitled to collect payments from its Subscribers for MRT Services, as follows:

- (a) One-time installation fees for the connection of mobile or hand-held Terminal Equipment in the possession of the Subscriber, to the MRT Network, including the issue of a SIM card to the Subscriber (hereinafter: “Connection Fees”);

¹⁵¹ Amendment No. 5
¹⁵² Amendment No. 29

- (b) a fixed monthly payment;
- (c) payment for Air Time as specified in clause 75.10; (d) Payment for Call Completion as specified in clause 75A; (e) Payment for Basic Services, Accompanying Services and Value Added Services, as specified in the First Annex to the License.74.2¹⁵³ The Licensee shall not be allowed to collect from a subscriber:
 - (a) Payment for initiating a call;
 - (b) Minimum payment for a call;
 - (c) ¹⁵⁴Any payment prior to the actual provision of the service, except for "PRE-PAID" service.

Section B - Tariff Changes

75. Setting the Tariffs and their Rates

- 75.1 The Licensee shall set tariffs for every service and Basket of Services which it provides to its Subscribers, and may determine the manner in which tariffs are to be linked to the index. The Licensee shall notify the Director of the amount of each tariff prior to its coming into effect.
- 75.2 The Licensee may set Baskets Of Services according to the classes of services including in the Basket, periods of time, or any other method. The Licensee may set a separate tariff for each of the services included in the basket, or may set an all-inclusive tariff.
- 75.3 The Licensee shall offer each Basket Of Services on equal terms and under a uniform tariff according to classes of Subscriber; for the purposes of this clause "class of Subscribers" – a group of Subscribers the characteristics of which give reasonable grounds to justify its being distinguished from another group . .
- 75.4 The Licensee shall allow each Subscriber to change, without discrimination, from one Basket Of Services to another Basket Of Services which it is offered at that time. The Licensee shall include a provision to this effect in its service contract with the Subscribers. In the context of this provision, it may prescribe dates available for such change and may prescribe conditions, including payment, for effecting the change.

¹⁵³ Amendment No. 56

¹⁵⁴ Amendment No. 57

- 75.5 ¹⁵⁵If the Licensee enters into an agreement with a Subscriber regarding a service or basket of services that includes a commitment as defined in Article 56A.1 (the "**Commitment Period**"), the following provisions shall apply, except for a Business Subscriber:
- (a) The agreement conditions, except for the tariffs of the agreement, shall be final, known and set out in advance for the entire Commitment Period;
 - (b) The tariff for each service shall be set in the agreement, shall be constant and set out in New Shekels for the entire Commitment Period;
- For this article, "constant"-each tariff before V.A.T. that the Subscriber must pay as set out on the day of the agreement, shall not be raised during the Commitment Period.
- Notwithstanding the aforesaid, the Licensee may supply its services to Subscribers at lower tariffs than those set out beforehand in the subscriber agreement during a limited time period, to all its Subscribers or to a certain type of subscribers.
- (c) The Licensee shall include provisions in accordance with the above-mentioned in the subscriber agreement.
- 75.6 The Licensee shall not make contracting with a Subscriber, or changing a subscriber from one Basket of Services to another, conditional on the purchase of Added Value Services or Terminal Equipment from it.
- 75.7 A Basket of Services which prescribes payment in installments for Terminal Equipment or for one of the services, shall include an arrangement for payments in the event that a Subscriber requests to be released from the said Basket or to change from the said Basket to another Basket of Services. This arrangement shall be according to the balance of the payments which the Subscriber has not yet paid or according to the balance of the Commitment Period.
- 75.8
- (a) The Licensee may not collect any payment from a Subscriber for a call not initiated by the Subscriber (hereinafter: an "Uninitiated Call").
 - (b) Notwithstanding the provisions of sub-clause (a), the Licensee may collect payment from the Subscriber for an Uninitiated Call in the following Cases:
 - (1) the call is transferred to the Subscriber via a roaming service;
 - (2) it is a collect call to which the Subscriber has agreed;
 - (3) a call made by dialing a number with a special access code for a free of charge service for the person initiating the call, that was allotted to the Subscriber in accordance with an agreement with him¹⁵⁶;
 - (4) Deleted¹⁵⁷

¹⁵⁵ Amendment No. 47

¹⁵⁶ Amendment No.54

¹⁵⁸(c) The Licensee may charge a Subscriber, that initiates a charged call for services or for the following access codes, a charge that does not exceed the tariff that the Licensee charges the Subscriber for a call to a fixed line network:

- 1) Partially toll free service calls¹⁵⁹
- 2) Business speed dial service¹⁶⁰

(d) ¹⁶¹for a call to an international destination, the Licensee can only receive the payment imposed on the international operator that is set forth in the interconnect regulations.

¹⁶²75.9 (a) Deleted¹⁶³
"a,"

75.10 The manner of determining payments for Air Time shall be as follows:

- (a) The payment for Air Time shall be determined according to Air time unit¹⁶⁴ ; for the purpose of calculating the payment, part of a Unit Of Air Time shall be deemed to be a full Unit of Air Time.
- (b) The payment for any airtime unit, at least for the duration of the first minute of the call, shall be constant;¹⁶⁵

¹⁵⁷ Amendment No. 49

¹⁵⁸ Amendment No. 49

¹⁵⁹ In accordance with the service file "partially toll free calls" (1-700 service).

¹⁶⁰ In accordance with the Director's provisions "speed dial for businesses-star and four digits", dated 4 may 2008.

¹⁶¹ Amendment No. 53

¹⁶² Amendment No. 16

Effect- Article 75.9 shall take effect as of 15.12.02

¹⁶³ Amendment No. 54

^a Simultaneous bi-directional transmission of speech as well as simultaneous transmission of facsimile messages, in an international telecommunications system.

¹⁶⁴ Amendment No. 29

¹⁶⁵ Amendment No. 56

- (c) For the purpose of payment, the duration of the call shall be from the time of establishing the connection between the Subscriber initiating the call (hereinafter: the "Calling Subscriber") and the Subscriber receiving the call, until the time of terminating the call, which is the time that an instruction given to end the communication is received from the Calling Subscriber or the Subscriber receiving the call; the period of time spent in establishing the connection, until the time in which the contact is in fact established, and the period of time in disconnecting, from the moment an instruction is received to terminate the communication up until actual disconnection, are not included in the calculation of the duration of the call.

For the purpose of this sub-clause, a Subscriber receiving a call includes voicemail.

¹⁶⁶"**Voice Mail**"- a device or mechanism that is part of the MRT system, that is meant to allow the calling Subscriber to leave a voice message for the receiving Subscriber.

- (d)¹⁶⁷ For a call that is transferred to Voice Mail, the Licensee shall play an introductory recorded message to the calling Subscriber, that is at least 2 seconds long (in this sub-section-"a **message**"), and will allow the calling Subscriber, in accordance with his choice, to disconnect the call without a charge, in the course of the Message, or within a reasonable amount of time that will not be less than 1 second after its termination ("**reasonable time**"). In this case, the timing of the execution of the call with the receiving Subscriber shall be as set forth in sub-section (c) above, as occurring after a reasonable time.

The Message text shall be "the call is being transferred to voice mail" and it shall be played in a clear manner and a reasonable pace.

In this sub-section, "**a call that is transferred to voice mail**"- except for a call that originated in the International Bezek system.

¹⁶⁸75.11 (a)- In this article:

"**Limited Package**"- a package of minutes that is limited to a number of minutes, in accordance with the subscriber's plan.

¹⁶⁶ Amendment No. 39

¹⁶⁷ Amendment No. 39

¹⁶⁸ Amendment No. 70

"**Unlimited Package**" - an unlimited package of minutes for which the subscriber pays.

"**Free of Charge Number**" - a phone number that is determined that a call to it from any network will not be charged to the initiator of the call;

"**A Special Telephone Number at a Composed Tariff**" - a national or network telephone number in an unusual numbering plan, for which the call tariff to it is a composed tariff;

"**A Special Telephone Number at a Regular Tariff**" – a national¹⁶⁹ or network¹⁷⁰ telephone number in an unusual numbering plan, for which the call tariff to it does not exceed the normal tariff;

"**Unusual Numbering Plan**" - a numbering plan that is not a regular numbering form;

"**Usual Numbering Plan**" - a numbering plan of geographic numbers and national numbers in accordance with the definitions in the numbering plan¹⁷¹.

"**Composed Tariff**" - a tariff composed of a regular tariff in addition to a tariff for service provided by the Licensee or someone on his behalf or a service provider;

"**A Regular Tariff**" - a tariff per minute for a call to telephone numbers in a regular numbering plan, in accordance with the subscriber's tariff plan.

- (a) The Licensee will not charge a subscriber that calls destinations with free of charge numbers and shall not count the minutes of the call to those destinations as part of a limited package.
- (b) The Licensee may charge a subscriber that calls destinations with special telephone numbers at regular tariffs and shall count the minutes of the call to those destinations as part of a limited package or as part of an unlimited package. For the avoidance of doubt, the Licensee may not charge a subscriber for calling destinations with special telephone numbers at regular tariffs any additional payment beyond the payment that he pays for a package of minutes, as long as the subscriber has not exceeded his quota of plan minutes. If the subscriber exceeds his quota of plan minutes, the Licensee may charge him for calling the said destinations in accordance with a tariff that does not exceed the regular tariff. In addition to the aforesaid, the Licensee may not distinguish between the tariffs that he charges the subscriber for calling telephone numbers with regular numbering plans and for calling special telephone numbers at regular tariffs, including by determining separate minute packages.

¹⁶⁹ A telephone number that can be accessed from any network.

¹⁷⁰ A telephone number that can be accessed only from the Licensee's network.

¹⁷¹ For example numbers in the 03-XXXXXXX, 05Y-XXXXXXX and 07Z-XXXXXXX

- (c) If the charge for calls to destinations with special telephone numbers is done in accordance with a composed tariff, the Licensee shall count the minutes of the calls to said destinations as part of a limited plan or as part of any unlimited plan, for which the subscriber pays.

The Licensee may charge the subscriber for the services that are provided as part of calling telephone numbers that are charged according to a composed tariff, whether the charge is per minute of the call or whether the charge is a constant charge for a call, in addition to the regular payment for the package of minutes.

75A. Completion of a Call in another Public Telecommunication Network¹⁷²

The payment which the Licensee shall collect for Call Completion shall not be greater than the interconnect tariff set forth in the Telecommunications Regulations (Payments for Interconnection) 57600-2000.

75B. Completion of a Short Message Service (SMS) in another MRT Network¹⁷³

The Licensee may charge a Subscriber for transferring a Short Message Service, from Terminal Equipment connected to the Network to Terminal Equipment connected to an MRT system of another MRT licensee, payment that shall not exceed the payment the Licensee charges Subscribers for transferring a Short Message Service, from Terminal Equipment connected to the Network, to Terminal Equipment connected to the Network, in addition to a charge that shall not exceed the fee for transferring a Short Message Service as set forth in the Communication Regulations (Telecommunications and Broadcasting) (Payments for Interconnection), 2000.

In this Article-

“Short Message Service”- (SMS)- A telecommunication message that includes writing, including letters or signs, that are transferred from Terminal Equipment connected to the Network, to Terminal Equipment connected to the Network or connected to an MRT system of another MRT licensee.”

¹⁷² Amendment No. 23

¹⁷³ Amendment No. 23

75C. Temporary Provision¹⁷⁴

Notwithstanding the above-mentioned in Article 75B, for the period beginning 9 May 2004 until 9 February 2005¹⁷⁵, the following provisions shall apply:

- (a) The Licensee may charge a Subscriber for transferring a Short Message Service, to Terminal Equipment connected to an MRT system of another MRT licensee ("Message between Networks"), payment that shall not exceed the payment the Licensee charges Subscribers for transferring a Short Message Service, from Terminal Equipment connected to the Network to Terminal Equipment connected to the Network, in addition to a charge that shall not exceed the fee for transferring a Short Message Service as set forth in the Communications Regulations (Telecommunications and Broadcasting) (Payments for Interconnection), 2000 minus a reduction in the amount of 0.7% ¹⁷⁶.
- (b) The Licensee may charge a Subscriber payment for a Short Message Service Between Networks as set forth in sub-section (a) even if the transfer to the receiving Subscriber has not been completed.

¹⁷⁷75D. Notice of Utilization of Data Package in Israel¹⁷⁸

- 75D.1 The Licensee shall send an SMS to the subscriber when he has utilized 75% and 95% of his data package. The SMS will be sent to the telephone number of the subscriber and another telephone number of the subscriber as noted by the subscriber when the subscriber agreement was signed, as close as possible to the date of said utilization. The SMS shall include at least the following: the utilized amount of the package, the calculation date of the utilization (date and time) and the telephone number that the SMS refers to. For this matter, "**data package**" -the amount of units of a data package over the cellular internet in Israel (hereinafter-"**data package service**"), that is provided to a subscriber at a set tariff independent of the actual extent of the usage.

This section shall apply only when the tariff of the data package service unit, after full utilization of all data package service units that are included in the data package are more than 1.25 times the tariff of the data package service unit as part of the data package.

¹⁷⁴ Amendment No. 24

¹⁷⁵ Amendment No. 27

¹⁷⁶ The reduction in the amount of 0.7% is based on reports received from some of the MRT operators, regarding the rate of Short Message Services between Networks that did not reach their destination. Article 75C was set as a temporary provision, during which time the MRT operators shall carry out the necessary adjustments between their MRT networks and interconnection arrangements for the complete application of Article 75B of their license. For the avoidance of doubt, it should be clear that this temporary provision is set for a limited period of time only, due to the difficulties that MRT operators experienced regarding the possibility to receive information regarding the inability to complete a Short Message Service in another MRT network. However, it should not be inferred from this temporary arrangement to the matter of allowing collection of payment for a Short Message Service that did not reach its destination, and it does not detract from the Ministry's basic position that as a rule, no payment shall be charged for a Telecommunication Service that was not completed.

¹⁷⁷ Amendment No. 57

¹⁷⁸ Amendment No. 72

17975E Charges for International Roaming Services

75E.1	In this article:	
	"arrangement"-	- a package or plan that includes cellular data;
	"package offers"-	- an offer of three packages or various plans that the Licensee may have that include data that have been offered to the Licensee's subscribers in the month preceding the month in which the package offers were sent to the subscriber;
	"package"	- a limited quantity of service units, that can be used during a limited period through international roaming abroad, that are sold at a known and predetermined price and is valid for certain destinations
	"abroad or destination"	- a country, including a vessel at sea and an aircraft;
	"Mb"	- Mbyte
	cellular data or cellular data service"	- cellular data service abroad
	"plan"	- a tariff plan for a limited period of time or for a specific trip abroad ¹⁸⁰ for the use of services through international roaming abroad (for example: voice service, sending and receiving sms and cellular data) to destinations included in the plan and the payment for the services shall be made in accordance with the use; the service tariffs included in the plan are different from the tariffs for these services for a subscriber that did not enroll in the plan; the plan can determine a set payment that does not depend on usage

179 Amendment No. 72
180 Amendment No. 73

75E.2 (a)¹⁸¹ The Licensee will send an SMS to a subscriber that purchased an international roaming services package (hereinafter in this section "**the package**"); the SMS will be sent each time the subscriber utilizes 75%, 90% and 100% of the package; in addition, the Licensee will send an SMS to the subscriber upon the termination of the arrangement and will note the termination of the arrangement. The SMSs will be sent to the subscriber at no charge, as close as possible to the said level of utilization and shall include at least the following: the utilization rate of the services included in the arrangement as set forth in the following section 1-5 and the date on which the utilization calculation was made (date and time);

1. Call minutes
2. SMSs
3. Cellular data (in Mb)
4. Call minutes and SMSs in a combined manner
5. Call minutes, SMSs and cellular data (in Mb) in a combined manner

(b) ¹⁸²Notwithstanding the aforesaid in article 75E.2 (a)-

- 1) The Licensee shall be exempt from sending an SMS to a subscriber regarding the utilization of the package that he purchased, as set forth in article 75E.2(a) if the following apply:
 - (a) The subscriber purchased the package before March 31, 2014;
 - (b) The subscriber specifically agreed in writing to waive the receipt of an SMS as set forth in article 75E.2(a);
 - (c) The Licensee proved to the satisfaction of the Director that a technological limitation that is not under its control prevents it from receiving an online indication or close to an online indication with respect to the execution of calls by direct dialing.

¹⁸¹ Amendment No. 73

¹⁸² Amendment No. 73

- 2) If a subscriber uses MRT equipment that does not support SMSs, including tablets with SIM cards and cellular modems, the Licensee will require the subscriber when he purchases the package an alternative means of communication (for example whatsapp, viber, skype applications, email or voice mail) ("**alternative means**"); if the subscriber provided alternative means, the Licensee will send the messages regarding said package utilization in article 75E.2(a) by alternative means.
- 75E.3 If a subscriber purchases an arrangement, the Licensee shall block the access to the cellular data after complete utilization of the package or upon termination of the arrangement, according to the matter, free of charge and the subscriber will not be required to pay any payments for cellular data, beyond the payment known in advance for the package that was purchased or the plan that the subscriber joined. The Licensee shall send an SMS to the subscriber, free of charge, regarding the said blocking, possible to the blocking date. The SMS should include package offers.
- 75E.4 (a) The Licensee shall block free of charge the access to cellular data service for every subscriber upon his arrival abroad, unless the subscriber fulfills one of the following conditions:
- 1) The subscriber has an arrangement.
 - 2) The subscriber requested at his own initiative, through a "service access form" to allow him to access cellular data on a regular basis.
- (b) If the subscriber does not fulfill one of the conditions set forth in sub-section (a) and the Licensee does not block the subscriber for cellular data, the Licensee shall not charge the subscriber for the cellular data.
- (c) The Licensee will block free of charge the access to cellular data as set forth in sub-section (a) and will not charge for cellular data as set forth in sub-section (b) any time that a subscriber that purchases an arrangement reaches a destination not included in the arrangement. The Licensee will again allow the said subscriber the cellular data immediately and automatically and without the subscriber's need for any manual action any time that the subscriber in at a destination included in the arrangement.
- (d) The Licensee will send the subscriber an SMS free of charge regarding the said blockage in sub-sections (a) and (c) as close as possible to the time of the blockage and will note the reason for the blockage and the ways in which the subscriber can apply to open the blockage. The SMS will include the package offers.
-

(e) Article 60.6 shall apply to the manner of subscribers applying for cellular data while abroad after their access to the cellular data has been blocked and access to cellular data has been allowed to them without having to purchase an arrangement after they have confirmed that they are aware of the cellular data price per Mb without an arrangement and the documentation shall also include the subscriber's details and his said confirmation.

- 75E.5 Upon the arrival abroad of a subscriber that requested through a "service access form" to have access on a regular basis to cellular data and the subscriber does not have an arrangement or his arrangement does not include the country in which the subscriber is staying¹⁸³, the Licensee shall send him an SMS that includes a warning regarding the possible chargeable consumption of cellular data, without the initiation of any cellular data action and information regarding the ability to block the cellular data by changing the handset settings. The SMS should note, if relevant, that the said blockage also blocks the ability for cellular data in Israel and therefore the blockage should be removed for cellular data upon the return to Israel or by calling the Licensee's call center. In addition, the SMS should include a package offer.
- 75E.6 The Licensee will notify its subscribers in the telephone bill following the date of signature of the license amendment, with respect to the possibility to request to be blocked for cellular data by filling out a "service access form" that appears on the Licensee's website. The subscriber may send the said form to the Licensee by regular mail, e-mail, fax or by an online form on the Licensee's website, if the Licensee's website supports this possibility.
- 75E.7 The Licensee shall display on its website information regarding the subscriber's ability to block access to cellular data also through the handset, as long as said blockage does not block the ability to roam in Israel.
- 75E.8 The Licensee shall display on its website information about services that consume chargeable data volume without an active initiated action by the subscriber, for example: automatic synchronization of e-mail and updates of different applications.
- 75E.9 Charges for international roaming services according to a rate per unit shall be done retroactively in the telephone bill, after consuming the services and not in advance. If a subscriber purchases an arrangement that includes a payment that is known in advance, the charge will be done for this payment in the bill for the period during which the transaction became effective.
- 75E.10 Without derogating from the aforesaid in Article 55A, Article 60.6 shall apply to "remote sales transactions" of services through international roaming services.

¹⁸³ Amendment No. 73

- 75.11E The Licensee will send as soon as possible, free of charge, an SMS to each subscriber that purchases services through a remote sales transaction of services through international roaming services, that includes the main points of the transaction, and no later than the end of the day on which the remote sales transaction was made.
- In addition, the Licensee will note information regarding the said "remote sales transaction" in the telephone bill following the date of the execution of the transaction, in accordance with the billing period of the subscriber, that includes the telephone number for which the transaction was executed, the date of the transaction, the amount and types of services that were purchased through international roaming services, the number of days allocated for the use of the services, the date and time of beginning of provision of the services, the price of the services purchased, the price according to which the charge will be done for consuming the services beyond the package, if a package is purchased and the manner of rounding up every amount consumed ((hereinafter- "**transaction details**").
- A copy of the telephone bill in which the details of the transaction are noted will be available with the Licensee for presentation before the Director or for being sent to him upon demand, within five (5) working days from the date of the sending of the telephone bill¹⁸⁴.
- 75.12E In a transaction for the purchase of services through international roaming services that was done in the presence of the Licensee's representative and the subscriber, the subscriber shall be given at the time of the agreement execution a printed confirmation that includes the transaction details. A copy of the confirmation shall be available with the Licensee for presentation before the Director or for being sent to him upon demand, within five (5) working days from the date of the agreement execution.
- 75.13E The Licensee will publish on its website all the packages and plans that are marketed to private subscribers as well as the tariffs of all international roaming services for subscribers without arrangements, for all the destinations for which the Licensee has an international roaming agreement. The Licensee will not charge a subscriber for international roaming services that was done at a destination that was not published as set forth above before the charge.
- 75.14E The tariff for cellular data will be noted by the Licensee every place where it is noted in units of NIS 1 per Mb.
- 75.15E The cellular data tariff for 1 Mb for a subscriber that does not have an arrangement will be lower than the price of the cheapest package offered by the Licensee.
- 75.16E The purchase of an arrangement, in Israel or abroad, does not change the default listed in the updated service order form except for the period of that arrangement.

¹⁸⁴ Amendment No. 73

76. Publication of Tariffs

- 76.1 The Licensee shall make available to anyone who requests, at the service offices and referral centers, and without charge, full and detailed information regarding updated tariffs for all its services including payment for Call Completion; the Director may instruct the Licensee in regard to the manner and form in which tariffs are to be published, as aforesaid.
- 76.2 The Licensee shall specify in every account statement sent to the Subscriber, the Basket Of Services for which the Subscriber is being charged.
- 76.3 The Director may at any time require the Licensee to furnish him with details of the tariffs that it charges.

77. Deleted¹⁸⁵

77A. Prevention of Fraud

- 77A.1 The Licensee shall take appropriate and reasonable steps to prevent fraud and shall establish a system for supervision and follow-up, in order to ensure, as far as possible, that calls for which a Subscriber is charged are in fact made from the Terminal Equipment that is connected to the MRT system of the Licensee in the Subscriber's name.
- 77A.2 The Licensee shall disconnect the Subscriber's Terminal Equipment from service after receipt at its service offices of a notification from the Subscriber that the Terminal Equipment has been lost or stolen, or that a suspicion exists that another is making calls through it without having received permission to do so; the Subscriber is permitted to give notification as stated by telephone or in writing, including fax and electronic mail; upon receipt of the telephone notification or immediately following receipt of written notice the Licensee shall verify its reliability, and shall disconnect the service.
- 77A.3 The Licensee shall cooperate with other Licenses in locating and preventing fraud.

¹⁸⁵ Amendment No 41

Section C – Amendments to Tariffs

78. Change in Tariffs¹⁸⁶

- 78.1 Subject to the above-mentioned in article 75, the licensee may change the tariff of any service or packages of services (hereinafter in this article – “**service**”), set by itself as long as:
- (a) it shall submit to the director a written notice, before the tariff comes into effect, detailing the new tariff;
 - (b) it shall give prior written notice to every subscriber that joined the service; despite the afore-mentioned, for the matter of reduction, a notice to the subscriber can be given up until a month after the reduction.

For this section, “**change**” –any change to a tariff that can result in an increase or decrease in payment before V.A.T that a subscriber must pay for services of the licensee.”

79. Commencement of Increase or Reduction of a Tariff

If the amount of any tariff for MRT services pursuant to the provisions of the license has been raised or lowered, the increase or decrease shall not apply to payments made for such a service prior to the date of commencement of the increase or decrease; the increase or decrease shall apply only with regard to payments for MRT services that were provided to the Subscriber after the date of the increase or decrease. The provisions of this clause shall not apply in the case of an amendment of a tariff pursuant to the instructions of the Minister under clause 83.

80. Late Payments

- 80.1 The Licensee may charge a Subscriber interest, linkage and collection costs for payments for MRT services not paid by the Subscriber on the due date as specified in the payment notice that was sent to the Subscriber, in accordance with the service contract¹⁸⁷ between them (hereinafter: the “date of payment”).
- 80.2 Deleted¹⁸⁸,

¹⁸⁶ Amendment No. 41

¹⁸⁷ Amendment No. 32

¹⁸⁸ Amendment No. 41

- 80.3 The amount of interest charged shall not be greater than the amount set out in the definition of "interest linkage" in section 1 of the Interest Linkage Adjudication Law 5721-1961, together with linkage for the period between the date on which the payment is due and the date of actual payment of the specified amount.
- 80.4 The Licensee shall be permitted to charge a Subscriber with payment for collection costs for a payment for services provided to the Subscriber that were not paid on the due date (hereinafter-"the **amount due**") on condition that at least fourteen (14) days have elapsed from the payment date, except in the case of non-payment due to refusal by a bank or credit card company to pay a charge which the Licensee has authorization to collect; The amount of collection costs that the Licensee will charge, shall be reasonable and relative in regard to the amount due and the actions that the Licensee must take to collect the said amount. For this matter, "collections costs"-including legal actions that the Licensee or anyone on the Licensee's behalf takes to collect the amount due before filing an application with the courts.¹⁸⁹

Section D – Miscellaneous

81. One Time Charge for Connection Fee

The Licensee may, should it resolve to charge a Connection Fee as defined in Paragraph 74(A), to charge the subscriber with a Connection Fee only for the initial connection of the Subscriber to the MRT System and provision of MRT System and provision of MRT services, or for connection after¹⁹⁰ complete disconnection in accordance with article 71, or Termination of Disconnection of Service in accordance with Paragraph 72.

82. Collection of Subscription Fee In Installments

The Licensee is permitted to collect the Collection Fee set out in Paragraph 82 for connection to the MRT System in a number of payments, on dates agreed with the Subscriber and in amounts set out in the service contract.

¹⁸⁹ Amendment No. 32

¹⁹⁰ Amendment No. 57

83. Harm to Compensation or Consumers

- (a) If the Minister finds that one of the Licensee's tariffs or a demand for payment to, or via the Licensee contravene the provisions of the License, then the Minister shall notify the License of such, specifying the required amendment and that in the event it is not amended the Minister shall exercise his authority pursuant to sections 5 and 15 of the Law; the Licensee shall furnish the Minister with written notification specifying the amended tariff and shall act to refund the extra amount, if any, to Subscribers charged according to the tariff prior to its amendment.
- (b) If the Minister finds that one of the Licensee's tariffs or a demand for payment to, or via, the Licensee are not reasonable or may cause harm to competition or to consumers, then the Minister shall notify the Licensee of such specifying the required amendment and that if it is not amended the Minister shall exercise his authority pursuant to sections 5 and 15 of the Law; the Licensee shall furnish the Minister with written notification specifying the amended tariff.

83A¹⁹¹ Overcharging

- (a) The Licensee shall document in its information technology systems any written or oral claim of a subscriber regarding overcharging that appears in a telephone bill;
- (b) The Licensee shall send an explanatory reply in writing to a subscriber regarding his disagreement, with details of the calculation manner of the refund or the reasons for rejecting the claim, in accordance with the matter, within twenty one (21) days of receipt of the claim. For this matter- "date of receipt of the claim"- For a written claim-the date of receipt of the claim by the Licensee; For an oral claim-the date the notice was given to the Licensee. A copy of the said reply shall be available at the Licensee for presentation to the Director, within five (5) working days from the date it was sent. If the Licensee sent the answer by electronic mail or facsimile, the approval receipt shall be available at the Licensee for presentation to the Director, within five (5) working days from the date it was sent.

¹⁹²Despite the mentioned, if the subscriber submitted an oral disagreement and the Licensee concluded that the subscriber was overcharged by no more than NIS 100, the Licensee may be allowed to not respond in writing to the disagreement if the subscriber explicitly agreed".

¹⁹¹ Amendment No. 57

¹⁹² Amendment No. 58

- (c) If the Licensee discovers that the subscriber was overcharged, it shall refund the overcharged amount in one payment without setting any conditions for its receipt, in addition to "linkage and interest differences" as defined in section 1 of the Award of Interest and Linkage Law, 1961, for the period between the date the overcharged amount was collected and the date of actual refund, as detailed below:
- (1) The amount of the overcharged amount is more than 100 NIS (including VAT, linkage and interest)-the refund shall be deposited directly into the subscriber's ¹⁹³payment method (bank account or credit card) within three (3) working days from the date that the Licensee sent the said answer as set forth in sub-section (b). ¹⁹⁴Notwithstanding the aforesaid, the Licensee may refund a business subscriber by crediting the telephone bill, if the business subscriber explicitly agreed
 - (2) The amount of the overcharged amount is less than 100 NIS (including VAT, linkage and interest)-the refund shall be executed by crediting the telephone bill following the date that the said written answer was sent as set forth in sub-section (b); in case the credit amount is greater than the following telephone bill amount, the balance shall be deposited in the subscriber's bank account within three (3) working days from the date that the telephone bill is sent to the subscriber, and the matter will be noted in the said telephone bill.
 - (3) ¹⁹⁵Notwithstanding the aforesaid in sub-section (c)(1) and c(2) a refund to a pre paid subscriber shall be made by crediting his available balance.

¹⁹³ Amendment No. 58

¹⁹⁴ Amendment No. 58

¹⁹⁵ Amendment No. 58

Section A - Royalties and Payments

84. Royalties

- 84.1 ¹⁹⁶The Licensee shall pay royalties as set out in the Telecommunications Regulations (Royalties), 5761-2001 or any other regulations that may replace those (hereinafter: the “**Royalty Regulations**”).
- 84.2 The Licensee shall attach two copies of an unaudited quarterly income statement, signed by the Licensee and approved by an accountant, to any payment of royalties under this clause; such statement shall include details of the calculation of dutiable income in accordance with the Royalty Regulations, and any other detail upon which the Licensee based the sum of the royalties.
- 84.3 Upon submission of an annual audited statement of income, signed by the Licensee’s accountant (hereinafter: the “**Audited Statement**”), the Licensee shall submit a statement set out by quarters, detailing the correspondence between the income in respect of which it paid royalties and the income appearing in the Audited Statement (hereinafter: the “**Adjusted Statement**”).
- 84.4 Where it becomes apparent that the sum of royalties that the Licensee was required to pay under the Adjusted Statement is higher than the sum paid by it for the quarter to which the Audited Statement relates, the Licensee shall pay royalty differentials, together with interest and linkage differentials as set out in the Royalty Regulations.

¹⁹⁶ Amendment No. 14

- 84.5 Where it becomes apparent that the sum of royalties that the Licensee is required to pay under the Adjusted Statement is lower than the sum paid by it for the quarter to which the Audited Statement relates, the Licensee shall be credited with the sum of the surplus payment; surplus payments to which the Licensee is entitled shall be set off, upon written approval by the Director, against the next royalties payment, and interest and linkage differentials shall be calculated in accordance with the last index published prior to the date of the setoff, as aforesaid; for these purposes, interest and linkage differentials shall be as set out in the Royalty Regulations.
85. **Delay in Payment of Royalties**
- The Licensee shall pay linkage differentials, arrearage interest and collection costs as set out in the Royalty Regulations, on royalties not paid in the time prescribed for their payment under said regulations.
86. **Manner of Payment of Royalties**
- Royalties and linkage differentials, arrearage interest, and collection fees therefor, shall be paid to the accountant of the Ministry of Communications by way of bank transfer into the account of the Ministry of Communications.
87. **Other Obligatory Payments**
- The royalties under this section shall be in addition to any fee, tax or other obligatory payment that the Licensee is required to pay under the provisions of any law.

Section B - Liability and Insurance

88. Definition of the Scope of Liability

In this section:

“Use of the License” - The establishment of an MRT System, its installation, subsistence, maintenance or operation, either by the Licensee or through its agent, including its employees, contractors, agents or representatives.

89. Liability of the Licensee

89.1 The Licensee will be liable, pursuant to all laws, for any case of death, damage or loss caused to a person or his property, either directly or indirectly, from Use of the License or as a result of its use.

89.2 In using the License, the Licensee will take all reasonable steps to prevent damage or loss to a person or his property, and should damage or loss be incurred as a result of the Use of the License, the Licensee will repair the damage at its expense and compensate the injured party, all pursuant to all laws, with the exception of a case regarding which the Minister has granted it immunity as set out in Paragraph 90.

89.3 For the avoidance of doubt, the provisions of this paragraph do not place liability on the Licensee beyond the damage liability set out in the regular Civil Wrongs Laws or detract from such liability.

90. Immunity from Liability

90.1 The Minister may, on request from the Licensee, grant it the immunities enumerated in Section 9 of the Law, wholly or partially, subject to the provisions of Paragraph 90.3.

90.2 The Licensee will detail in its request the immunities it requests and the reasons for so doing.

90.3 If the Minister is satisfied by the need to grant the Licensee immunities in accordance with Section 9 of the Law, he will publish his decision in the Official Gazette.

91. Drawing Up an Insurance Contract

- 91.1 The Licensee, at its own expense, will draw up an insurance contract with an authorized insurer in accordance with the provisions of Paragraph 92, and it will be presented to the Director at the award of the License.
- 91.2 The Licensee will indemnify the State for all financial liability, as set out in Paragraph 89.1, that the State will be bound to any third party as a result of the Use of the License; indemnification in accordance with this paragraph will be insured by the Licensee in liability insurance.
- 91.3 The Licensee will insure itself, including its employees and contractors, against any financial liability as set out in Paragraph 89.1, which might bind it pursuant to all laws as a result of damage caused to person or his property, from Use of the License and against any loss or damage caused to the MRT system, wholly or partially, from Use of the License, and including third party risk.
- 91.4 The Licensee will provide the Director with a legal opinion, written by an attorney specializing in insurance, that confirms that the insurance policy covers all the requirements set out in Paragraphs 91.2 and 91.3; the Licensee will append to the said legal opinion a copy of the insurance contract and its annexes; the said documents will be submitted to the Director within seven (7) days from the signing of the insurance contract and will be appended to this License as Appendix G to the Second Annex.

92. Conditions in the Insurance Contract

- 92.1 The insurance contract will determine the period of insurance and will contain a condition stipulating that at the end of the set period, the insurance will be automatically extended.
- 92.2 Once a year, the Licensee will present to the Director confirmation from the insurer that the insurance contract is valid, that the Licensee is not in arrears with insurance premium payments and that there are no pending notices regarding cancellation, suspension, limitation, amendment or termination of validity of the insurance contract.
- 92.3 The insurance contract will contain a stipulation, according to which in any event of the insurer wishing to cancel the insurance contract as a result of non-payment of insurance fees, he must inform the Director in advance, no less than ninety (90) days before he intends to actually cancel the contract (hereinafter in this paragraph "Cancellation Notice").
- 92.4 Should a Cancellation Notice be sent as set out in Paragraph 92.3, the Licensee will take immediate action to remove the cause of the cancellation, or will take immediate action to obtain an alternative insurance contract as set out in Paragraph 92.6, and notify the Director of the action it has taken; should the cause of the cancellation be non-payment of insurance fees by the Licensee, the Director may make payment of said fees in its place, and may foreclose the bank guarantee or any part thereof to cover the expense incurred by payment of the insurance fees, or collect them in any other way.
- 92.5 Should the Licensee request the cancellation of the insurance contract, it will inform the Director in this matter within forty five (45) days at least before it intends to actually cancel the contract.
- 92.6 Should the Licensee agree to cancellation of the insurance contract by the insurer, or it has requested to do so itself, the Licensee will draw up an insurance contract with another authorized insurer in such a way that the new insurance contract will go into effect at the same time as the validity of the previous contract expires; the new insurance contract will be submitted to the Director, together with the legal opinion set out in Paragraph 91.4, at least thirty (30) days before it goes into effect, and it will be subject to the instructions in the paragraphs of this section.

93. Remedy for Breach of Insurance Conditions

Should the Licensee not draw up an insurance contract, or if it becomes clear that the insurance contract it drew up has been cancelled or it has expired, and the Licensee has not drawn up a new insurance contract as set out in Paragraph 92.6, the Director may execute the insurance in its place and pay the insurance fees, and may foreclose the bank guarantee to cover the expense incurred by payment of the insurance fees, or collect them in any other way; all of the above without derogating from the authority to cancel, limit or suspend the License because of non-execution of the insurance according to the conditions of this License by the Licensee.

Section C - Guarantee for Fulfilling the Conditions of the License

94. The Guarantee and its Objective

94.1 ¹⁹⁷The Licensee will submit to the Director an unconditional bank guarantee in the name of the State of Israel, in New Israeli Shekels, in the equivalent amount of ten (10) million US dollars, to ensure fulfillment of the License conditions; the guarantee is appended to this License as Appendix H to the Second Annex; .

94.2 The guarantee is used to ensure the fulfillment of the License conditions by the Licensee and their enforcement, and also for compensation and indemnification of the State for any damage, payment, loss or expense incurred or which may be incurred by the State, either directly or indirectly, as a result of non-compliance with the License conditions, wholly or partly, on their due dates and in full, or as a result of revocation of the License, its limitation or suspension.

95. Foreclosing the Guarantee

95.1 Without derogating from the generality of Paragraph 94.2, the Director may foreclose the guarantee, wholly or partly, if damage has been caused as a result of non-compliance with the conditions of the License, including every one of the following cases:

(A) Loss of income from royalties was caused to the State by a lack of income from subscriber payments, and as a result of the following:

- (1) Non-operation of the MRT Services on the dates set in the schedule set by the Director, or as the Director approved;
- (2) Termination of services, their suspension or limitation;
- (3) Limitation of the License or its suspension;

(B) An insurance contract in accordance with Paragraphs 91 and 92 was not drawn up, insurance fees were not paid or the said insurance contract expired or was cancelled;

(C) ¹⁹⁸The Licensee charges its Subscribers with payments in contravention of the provisions of clause 75;

¹⁹⁷ Amendment No. 18

¹⁹⁸ Amendment No. 14

- (D) The Licensee does not meet the coverage and quality requirements of the service as set out in Appendix B, or the Licensee constantly terminates, suspends or limits the service contrary to the provisions of the License;
- (E) Cancelled;
- (F) The Licensee constantly or maliciously breaches one of the provisions, conditions or requirements of the License;
- (G) A claim is filed, or a demand for payment of compensation and damages against the State for a breach of a condition of the License or deficient implementation of the License or due to the cancellation of the License, and also if expenses have been incurred by the State as a result of the said claim or demand; foreclosure of the guarantee to cover the sum of the said claim will only be executed after the verdict in the said claim has become final;
- (H) Royalties have not been paid on time and in full in accordance with Paragraph 74;
- (I) Expenses or damages were incurred by the State as a result of the cancellation of the License;

(J) Deleted¹⁹⁹;

(K) The Licensee has not completed the guarantee payments as set out in Paragraphs 96.2 and 97.2.

(L) The Licensee has not presented reports and notices as specified in Paragraphs 103, 104, 105, on the due date.

²⁰⁰(M) The Licensee has not paid the license fee on the date required, in accordance with the provisions of clause 40.1 of the terms and conditions of Tender No. 1/01.

(N) A monetary sanction under the Law has been imposed upon the Licensee and the sum required has not been paid on time, provided that a sum higher than the sum of the sanction shall not be forfeited

95.2 The Director may foreclose the guarantee in accordance with this section even for an expected breach of the License conditions or frustration of the License conditions that justify, in his considered opinion, early foreclosure of the guarantee.

96. Method of Foreclosure

96.1 The Director may foreclose the guarantee, wholly or partly, up to the sum specified therein, on condition that he has warned the Licensee that if within the period determined in the warning, the Licensee does not correct the act or omission that is the subject of the warning, the guarantee will be foreclosed, wholly or partly.

96.2 Should the entire sum of the guarantee or a part thereof be foreclosed, the Licensee will, on receiving the demand from the Director, immediately provide a new guarantee or make up the remainder to the sum of the original guarantee; failure to make up the sum of the guarantee will constitute a serious breach of the License conditions, and the Director may - without derogating from his authority to revoke the License, limit it or suspend it - foreclose any remainder of the sum of the guarantee;

96.3 Regarding the Director's decision to foreclose the guarantee, wholly or partly, the Licensee may appeal to the Minister within fifteen (15) days from the day he was notified of the Director's decision.

¹⁹⁹ Amendment No. 41

²⁰⁰ Amendment No. 14

97. The Period of Validity of the Guarantee

- 97.1 The guarantee will be valid during the entire period of validity of the License and also during two years after the validity of the License expires.
- 97.2 Should the Director see that the Licensee has not cleared all its obligations in accordance with the License, and this within sixty (60) days prior to the expiry of the guarantee, the Director may demand that the Licensee extend the validity of the guarantee for a period determined by the Director or submit a new guarantee as aforesaid, and the provisions of this section will apply to the new guarantee as well; should the Licensee not submit a new guarantee as set out above, the Director may foreclose the guarantee.
- 97.3 Should the Director approve receipt of a new guarantee, the validity of which may be extended from time to time in accordance with his demand, the Licensee will extend its validity, before the end of the expected period, and this for a period ordered by the Director; should the Director not exempt the Licensee from the obligation to extend the period of validity, and the validity of the guarantee has not been extended on the said date, the Director may foreclose the guarantee without prior warning.

98. Preservation of Remedies

- 98.1 Foreclosure of the guarantee, wholly or partly, does not derogate from the authority to revoke the License, limit it or suspend it.
- 98.2 The sum of the guarantee does not limit the scope of the Licensee’s liability to the State for full payment of damages caused to it, and the obligation of payment applies to the Licensee in accordance with the License or all laws.
- 98.3 The whole or partial foreclosure of the guarantee does not derogate from the right of the Director to claim from the Licensee, through any other course, payment of damages it is obliged to cover in accordance with this License or to employ other remedies available to it according to all laws.

Chapter H - Supervision and Reporting

Section A - Supervision of the Licensee's Activities

99. Authority for Supervision

The Director or a person authorized by him may supervise the activities of the Licensee in all matters pertaining to the implementation of the License and the observation of the provisions of the Law, the Ordinance and the Regulations therein.

100. Confidentiality

The Director and any person engaged in supervision activities on his behalf over the Licensee, will not disclose any information or document that comes into their hands in the course of their duties, to a person not authorized to receive them, unless they have been made public, or if the disclosure is necessary for the purpose of fulfilling their duties in accordance with this License and in accordance with all laws.

101. Entering Premises and Inspection of Documents

For the purposes of the supervision as set out in this section, the Director may:

- (A) Enter, at any reasonable time, any installation or office serving the Licensee for the purpose of provision of its services in accordance with this License;
- (B) Conduct measurements and tests in the MRT System and he may examine any record, document, plan, account book, ledger or data base, regular or computerized, of the Licensee or whomever is employed by it in the matters on which the Director has the said supervisory authority; the Director may examine and copy them in any way he deems fit.

102. Cooperation

The Licensee will cooperate with the Director in all matters concerning the execution of the supervision over its said activities, and without detracting from the generality of the above, it will enable them the execution set out in Paragraphs 100 and 101 and will provide them, on request, any information in its possession or under its control that is required for execution of the supervision.

Section B - Reporting and Fault Repair

103. Obligation to Submit Reports²⁰¹

- 103.1 The licensee shall submit to the director the reports detailed in this license, in a format and on the dates set forth in this section.
- 103.2 Each report should reflect the correct and relevant facts regarding the subject of the report so that they are updated to the report period.
- 103.3 A report should be submitted in two (2) copies, printed and formatted in a manner that is easy to read and will bear the date of its compilation and the signature of the licensee or anyone that has been authorized to do so; the report should be submitted in a format to be advised by the director, including regarding the contents, the structure and the method of submission of the report.
- 103.4 The director may require the licensee to redraft or supplement a report it has submitted, including in cases where the director has found that it lacks necessary details or other details that in the director's opinion the licensee should have included in the report

104. Types of Report and their Submission Date²⁰²

- 104.1 The licensee shall submit to the director upon his request or at least annually, at the end of the calendar year, and no later than ninety (90) days, the annual reports that describe the activities during the period from the month of January until the month of December, of the previous year:
- (a) An audited financial statement signed by an accountant
 - (b) A subscriber report, including the following data:
 - 1) The amount of private and business subscribers as well as post-paid and pre-paid subscribers;

²⁰¹ Amendment No. 41

²⁰² Amendment No. 41

2) The scope of income in the segmentation set forth in sub-article (1), so that the income from interconnect appears separately for each one, and in addition, a division according to airtime and value added services.

(c) A report regarding use of frequencies in accordance with Chapter 4 section C;

(d) Annex A- "The Licensee's Details" updated, at the beginning of the month of January, as detailed in article 20.1;

(e) ²⁰³Outline engineering report- an engineering report for the erection, development and upgrade of the network in the format set forth in Appendix B.

104.2 The licensee shall submit to the director on a quarterly basis, and no later than one month after the end of the quarter, the following reports:

(a) A reviewed quarterly financial statement, signed by an accountant;

(b) A reviewed quarterly income report, signed by an accountant, that includes all of the income that bears royalty payments;

(c) A traffic report-in a format to be advised by the director.

104.3 The licensee shall submit to the director a report for extraordinary events, as set forth in regulation 8 of the Supervision Regulations.

104.4 The licensee shall submit to the director the following reports, upon his request:

(a) Deleted²⁰⁴

(b) A fault report- that contains a summary of the network faults, details of the amount of faults and the accumulated time of each type of fault, an analysis of the faults and details of the steps taken to rectify them;

(c) A quality of service report-an analysis of the licensee meeting the requirements in articles 49 through 51 and Chapter E the level of service for a subscriber, during the period of the report;

²⁰³ Amendment No. 71

²⁰⁴ Amendment N. 71

- (d) A complaint report- that contains details of all the written complaints that were submitted by subscribers regarding service including the subject of the complaint, the dates it was received and was responded to in writing, the manner in which it was handled, and details of the actions of the complaint officer;
- (e) Details of the licensee's tariffs;
- (f) Deleted²⁰⁵
- (g) A lien report- the licensee shall report immediately to the director in any case of an attachment or lien on one of the licensee's assets or in case of a lien on the means of control in the licensee, exercise of such a lien or termination of any right of the licensee over the asset;achment or lien on one of the licensee's assets or in case of a lien on the means of control in the licensee; exercise of such liens or termination of any right of the licensee over the asset; In addition, the licensee shall submit to the director, upon his request, a report that sets out all of the afore-mentioned liens;
- (h) A subscriber summary report, income and minutes according to private and business subscribers, and in each category-a division of subscribers according to plans priced as "all inclusive" tariff and subscribers in plans priced separately for payment of "airtime" and interconnect, in a format to be advised by the director;
- (i) A harassing subscriber report as set forth in article 65A.9;
- (j) Any additional data that should be required in order to supervise the activities of the licensee as well as any necessary information that the office requires in order to administer telecommunication matters.

104.5 The director may add or remove periodic, quarterly or annual reports as well as require the licensee to submit special reports, as advised.

²⁰⁵ Amendment No. 71

- 105.** Notice of Defect²⁰⁶
- 105.1 Should the Director find defects or deficiencies in the Licensee’s activities, he will notify it in writing.
- 105.2 Should the Licensee receive such a notification, it will submit to the Director, within thirty (30) days from the day the notification was received, its response that will contain details of the steps taken for repair and of the said defects.
- 106.** Deleted²⁰⁷
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²⁰⁶ Amendment No. 41

²⁰⁷ Amendment No. 41

Chapter I - Miscellaneous

107. The License as an Exhaustive Document

- 107.1 The rights of the Licensee, its obligations and powers in all matters pertaining to the establishment, subsistence and operation of the MRT System and the provision of services through it, originate in this License and they derive from it and are in accordance with it only.
- 107.2 The Licensee will be precluded from claiming the existence of any right, obligation or authority based on information, promise, undertaking, representation, proposal, publication, minutes, discussion or declaration that were made outside the License, either in writing or orally, either prior to the award of the License or after it was awarded, with the exception of the interpretation provided by the Minister in accordance with Paragraph 6.

108. Holding the License Documents and their Return

- 108.1 The Licensee will hold the License documents in an office and will allow the public to examine their true and updated copies; should a License condition be changed, the Licensee will append the text of the change to the said License documents.
- 108.2 ²⁰⁸Where the License and the documents related to it are on public display, the public shall not have the opportunity to inspect the following documents, contained in the Second Annex of the License:
- (a) Appendix A – Details of the Licensee;
 - (b) Appendix B-The engineering plan that is attached to Appendix B²⁰⁹;
 - (c) Deleted²¹⁰
 - (d) Appendix G – Insurance Contract;
 - (e) Appendix H – Bank Guarantee;
 - (f) Appendix I – Letters of Undertaking;
 - (g) Appendix K – Special Services for Security Forces;
 - (h) Appendix L – Security Instructions.

²⁰⁸ Amendment No. 14

²⁰⁹ Amendment No. 41

²¹⁰ Amendment No. 41

- 108.3 The License documents are the property of the State and are entrusted to the Licensee for the period of the License's validity; should the License be revoked or expire, the Licensee will return the License and all its documents to the Director.
- ²¹¹108.4 The Licensee shall allow the public to inspect the documents of the License via the internet; the Licensee may also do so through the Ministry of Communications' internet site as long as the Ministry of Communications publishes the License on its internet site.
- ²¹²108.5 The Ministry may publish the License, other than the Appendices set out in clause 108.2, on such date and in such manner as it sees fit.

109. Deferment of Date

- 109.1 If an obligation imposed on the Licensee in this License has a set date for its fulfillment, the Licensee will fulfill it on that date.
- 109.2 The Director may, upon the Licensee's request, defer a date set as stated above, if he deems that fulfillment of the obligation on that date is impossible for reasons of *force majeure*.

²¹¹ Amendment No. 14

²¹² Amendment No. 14

110. Responsibility

The approval or supervisory authority conferred upon the Minister or the Director in accordance with this License, including the employment of the said authority, does not impose on them any responsibility whatsoever, that is imposed in accordance with this License on the Licensee, and it does not harm or detract or remove or diminish the responsibility of the Licensee as stated above.

111. Dispatch of Notice

111.1 A notice pertaining to this License or its implementation will be given in writing and be delivered by hand or by registered mail with confirmation of receipt; a notice dispatched by registered mail as stated above shall be deemed to have reached its destination within forty-eight (48) hours of its dispatch.

111.2 Any notice from the Licensee to the Minister will be delivered or dispatched through the Director.

111.3 For the purpose of receiving notices in accordance with this paragraph, the Licensee's address is: 8 Amal Street, Afek Industrial Park, P.O.Box 435, Rosh Ha'ayin, P.O.Box 48103²¹³; the Licensee will inform the Director of any change of address immediately.

112. Operation in the Civil Administration Territories of Judea, Samaria and Gaza

112.1 The Licensee will approach, within thirty (30) days from the date of award of the License, the Head of Civil Administration in the territories of Judea, Samaria and Gaza in order to receive permission to deploy the MRT System and provide services in those territories where powers in the telecommunication sector are in the hands of the Civil Administration.

112.2 The Licensee will operate in the territories of Judea, Samaria and Gaza by virtue of a permit from the Civil Administration; the permit will be based mainly on the provisions of the License, with the required changes, including the need to receive individual permission from the Civil Administration for the establishment of each installation.

113.²¹⁴ The Licensee shall present and/or play to the Director upon his request, any recording and/or document regarding a subscriber, during the entire last commitment period of the subscriber, and in case the subscriber has not been in the commitment period for at least eighteen (18) months and for a year after the date of sending of the final bill to the subscriber, as set forth in section 2.3(c)(2) in Appendix E.

²¹³ Amendment No. 4

²¹⁴ Amendment No. 57

CONFIDENTIAL TREATMENT REQUESTED

*Any text removed pursuant to the company's confidential treatment request
has been separately submitted to the U.S. Securities and Exchange Commission
and is marked [***] herein.*

**Privileged & Confidential
For Settlement Purposes Only**

CONFIDENTIAL SETTLEMENT AGREEMENT

This Confidential Settlement Agreement (“**Agreement**”) is made and entered into the 26th day of June 2015 (“**Effective Date**”) between and among **Partner Communications Company Ltd.**, with offices at 8 Amal St., Afek Industrial Park, Rosh Ha'ayin, Israel, (“**Partner**”), and **Orange Brand Services Ltd.**, whose registered office is at 3 More London Riverside, London SE1 2 AQ, UK, (“**OBSL**”) and its parent **Orange SA**, previously known as France Telecom, 78 Rue Olivier de Serres, 75015 Paris, France, (“**Orange**”), hereinafter collectively (“**Orange Entities**”). Partner, OBSL and Orange, are each referred to herein as “**Party**” and collectively referred to herein as “**Parties**.”

WHEREAS, Partner and OBSL are parties to the Brand License Agreement dated September 14, 1998, (referred to herein as “**Brand License Agreement**”), which has heretofore been amended from time to time, including, but not limited, by Amendment No. 7 dated March 31, 2015 (“**Amendment No. 7**”). Brand License Agreement and its amendments, including but not limited to Amendment No. 7, shall hereinafter collectively be referred to as (“**BLA**”), and to the Brand Support Agreement dated September 14, 1998,

WHEREAS, pursuant to the BLA, Partner was granted an exclusive license to use the Orange Brand as used, defined and set forth in the BLA,

WHEREAS, a controversy has arisen between Orange and Partner regarding, but not limited to, certain past events and issues, which Partner claims are attributable to Orange and have caused significant damage to Partner, while Orange denies any and all liabilities and the existence and nature of any damage allegedly caused to Partner (“**Disputes**”),

WHEREAS, it is the desire, purpose and intention of the Parties to amicably settle any and all past disputes, controversies, claims, actions and causes of action of any nature whatsoever, known or unknown, owned, held, possessed or asserted by any Party to this Agreement between or among the named Parties hereto and their respective parents, affiliates, subsidiaries, shareholders, directors, officers, employees and agents, and to establish certain understandings regarding the future business relationship between the Parties ("**Settlement**"),

NOW, THEREFORE, in consideration of the mutual covenants, representations and conditions contained herein, the receipt and sufficiency of which are hereby acknowledged, and for no other consideration or inducement whatsoever, the Parties hereby agree as follows:

1. Initial Payment and Market Study.

1.1 Initial Payment. Within five (5) Business Days (as defined below) from the Effective Date of this Agreement, Orange shall pay the sum of Fifteen Million Euro (€15,000,000) to Partner ("**Initial Payment**"). The Initial Payment shall be paid by Orange to Partner by wire transfer to Partner's bank account, the details of which are provided herein in **Exhibit 1** ("**Partner's Bank Account**"). The Parties agree that the term "**Business Day(s)**" shall mean any Monday, Tuesday, Wednesday and Thursday, excluding bank holidays declared as non-working days in the State of Israel, in the Republic of France and in the United Kingdom.

1.2 Market Study. Within ten (10) Business Days of receipt of the Initial Payment, Partner shall directly engage at its sole cost and expense the services of Publicis in Paris, France ("**Publicis**"), which shall cost no more than [***] and which shall be conducted under the supervision of Maurice Levy, or his designated successor, as Chairman & CEO of Publicis. The scope of the market study shall be determined by Partner in consultation with Publicis. It shall contain a full and complete survey in the State of Israel of the market issues, new brand strategies and positioning of Partner in the State of Israel and shall include detailed and comprehensive suggestions and recommendations to Partner in relation to the branding and rebranding of its lines of businesses in the State of Israel ("**Market Study**"). Partner shall make available to Publicis all materials reasonably required by Publicis to perform the Market Study. These materials will stay confidential between Partner and Publicis and Publicis will not disclose any part of it to any entity or person, including Orange Entities. Publicis shall submit to Partner for its pre-approval the identity of any persons or entities which Publicis proposes to engage for services relating to the Market Study and shall endeavor to complete the Market Study within sixty (60) days of engagement. The Market Study, and all concepts that are created therein and emanating therefrom, shall be in all respects the confidential and proprietary property of Partner. Publicis shall submit a confidential copy of the Market Study simultaneously to the Parties. The Orange Entities shall not disclose and/or use any of the information contained in the confidential Market Study for their or another party's benefit, for any purpose whatsoever, which shall be deemed strictly confidential and proprietary property of Partner. Partner may use the Market Study for any purpose it deems appropriate. In the event that the Parties are engaged in a dispute and/or litigation with one another, neither Partner nor Orange Entities may use or refer to any aspect of the Market Study in any manner, for any reason or under any circumstances in said proceedings. It is agreed that Orange Entities' confidentiality obligations shall be further governed by the provisions of Section 6.2 hereof. Nothing contained in the Market Study may be used by Orange Entities as any basis or reason for Orange Entities to fail or refuse, under any circumstances, to comply with the terms of this Agreement, including, but not limited to, making the Payments as defined and set forth hereinafter.

2. Market Study Review and Additional Payments.

2.1 The Parties agree that upon receipt of the Market Study, the Parties shall organize a meeting or call to review and discuss the results of same, it being the sole right of Partner to consider and determine its various options for its positioning and branding in the State of Israel; it being agreed and understood that Partner shall have the sole and exclusive right to make all its own final decisions for the operation and branding of its business in the State of Israel, without limitation, other than the compliance with the BLA and the intellectual property rights of OBSL and Orange as protected in the State of Israel ("**Orange IPRs**").

2.2 Continuation Payment. Orange shall pay the additional sum of Twenty-five million Euro (€25,000,000) to Partner within five (5) Business Days of the Parties' receipt of the Market Study from Publicis ("**Continuation Payment**"). The Continuation Payment shall be paid by Orange to Partner by wire transfer to Partner's Bank Account.

2.3 Use of Orange Brand. All terms and conditions of the BLA not explicitly amended in this Agreement and as set forth in **Exhibit 2** shall remain in full force and effect. For the avoidance of doubt, the Orange IPR's shall remain unaffected by this Agreement.

2.4 Partner's Right to Terminate BLA and Rebrand. Within twenty-four (24) months after the Effective Date ("**Partner's Termination Period**"), at any time and at its sole discretion, Partner shall have the right to terminate the BLA. Should Partner determine to terminate the BLA, and choose a new brand at its sole discretion, then Partner shall issue to Orange Entities a written notice of termination ("**Partner's Notice of Termination**"). If not exercised within Partner's Termination Period, the right of Partner to terminate, under this Agreement, shall thereafter expire and become null, void and of no further force or effect. For avoidance of doubt, nothing herein shall amend or otherwise effect Partner's existing right to terminate the BLA as set forth in the BLA, which shall expressly remain in full force and effect during the remaining life of the BLA and in accordance therewith.

2.5 OBSL's Subsequent Right to Terminate the BLA. In the event that Partner has not issued Partner's Notice of Termination within twelve (12) months of the Effective Date, OBSL shall thereafter have the right to terminate the BLA, without cause and at its sole discretion, exercisable at any time from the 1st day of the thirteenth (13) month after the Effective Date until not later than the last day of the twenty-fourth (24) month following the Effective Date ("**OBSL's Termination Period**"). If not exercised within OBSL's Termination Period, the right of OBSL to terminate the BLA under this Agreement shall thereafter expire and become null, void and of no further force or effect. For avoidance of doubt, nothing herein shall amend or otherwise affect OBSL's existing right, if any, to terminate the BLA, as set forth in the BLA, which shall expressly remain in full force and effect during the remaining life of the BLA and in accordance therewith. In the event OBSL determines to exercise its right to terminate the BLA within OBSL's Termination Period, OBSL shall provide Partner written notice to terminate ("**OBSL's Notice of Termination**").

2.6 Termination Payment. Orange shall pay the additional sum of Fifty Million Euro (€50,000,000) to Partner within five (5) Business Days of receiving Partner's Notice of Termination issued by Partner, or Partner's receipt of OBSL's Notice of Termination issued by OBSL ("**Termination Payment**"). The Termination Payment shall be paid by Orange to Partner by wire transfer to Partner's Bank Account.

2.7 Effect of Termination of BLA. Should Partner or OBSL exercise their right to terminate the BLA pursuant to Section 2.4 or Section 2.5 of this Agreement, upon payment, receipt and clearance of the Termination Payment, whether pursuant to Partner's Notice of Termination or OBSL's Notice of Termination, all applicable BLA provisions, including, but not limited to, those related to the effect of termination and brand extraction, shall apply in all respects. As soon as possible, after service of Partner's Notice of Termination or OBSL's Notice of Termination, the Parties shall meet to agree, in good faith, and finalize the Brand Extraction Protocol Agreement set forth in Section 6.3 of the Restated Amendment to the BLA and included in its Schedule 1.

In such event, the following additional provisions shall apply:

(a) Joint Termination Statement. The Parties shall issue a joint statement after the issuance of Partner's Notice of Termination or OBSL's Notice of Termination ("**Joint Termination Statement**"). The Joint Termination Statement shall be subject to any disclosure requirements of the Parties under applicable law. The Joint Termination Statement shall be prepared by Publicis as instructed by the Parties and shall be subject to the approval by each of the Parties prior to its release. Publicis' costs and expenses shall be borne exclusively by Partner. The Parties may also issue separate statements in accordance with the terms and conditions set forth in Section 6.3 of this Agreement.

(b) Orange Brand Extraction. The Parties acknowledge and agree that Partner shall be entitled to create and use a new brand of its own determination and may use any shape, shade or color which Partner shall select at its own discretion and for its own purposes as the dominant shape, shade and/or color, including, but not limited to, on goods, packaging for goods, printed materials, promotional and advertising materials, business papers or products as Partner may determine, provided that Partner's New Brand complies with the Brand Extraction Protocol Agreement and does not infringe any Orange IPRs ("**Partner's New Brand**"). All use, ownership and intellectual property rights of all forms and content, without limitation, of Partner's New Brand shall be the sole property and asset of Partner, without claim of right or interference by Orange Entities ("**Partner IP**").

(c) Termination of the Brand Support Agreement. The Parties agree that the Brand Support Agreement dated September 14, 1998 will be automatically terminated upon termination of the BLA.

(d) Orange Domain Name as Used in the State of Israel. The Parties shall discuss in good faith and agree, in the Brand Extraction Protocol Agreement the duration, and the terms and conditions of any redirection required as part of the extraction process, including, but not limited to, the email and internet traffic from www.orange.co.il.

3. Payments to Partner; and Payment and Royalties from Partner.

3.1 Allocation of Payments. The Initial Payment, the Continuation Payment and/or Termination Payment (**collectively the “Payments”**) each shall be allocated and reconciled by Partner as an advance evenly on a quarterly basis over a period of twenty four (24) months (**“Period”**) against marketing, sales, customer services, maintenance and support, and related Partner expenses, including, but not limited to, salaries of its employees (**“Expenses”**). The Expenses shall be reconciled against the Payments at the conclusion of the Period following the Effective Date of this Agreement in order for Partner to determine the excess or deficiency of the Payments as allocated to the Expenses (**“Reconciliation”**). Upon completion of such Reconciliation, Partner shall verify to its auditor that the Payments or any of them have been used against Expenses. Orange Entities agree that they shall not make any claim against or arising from, said allocation of Payments hereinabove set forth which is set out for information purposes only.

3.2 Payments to Partner. All payments to Partner by Orange pursuant to this Agreement shall be made in the full amount as set forth hereinabove as the Payments. It being agreed that if no Party terminates the BLA in accordance with this Agreement, the aggregate of the Payments shall total forty million Euro (€40,000,000) and upon a Party terminating the BLA, the aggregate of the Payments, pursuant to this Agreement, shall total ninety million Euro (€90,000,000). The Payments shall be paid in full as consideration for this Agreement and shall not be subject to any set off or deductions of any kind by the Orange Entities and upon receipt thereof by Partner shall be the sole property of Partner. Each payment shall originate from France and shall be delivered to Partner free and clear of, and without withholding or deduction for or on account of, any taxes, duties or levies of whatever nature, imposed by the French tax authorities. It shall be Orange's sole responsibility to secure any withholding or other tax exemption or clearance certificate or other documentation required (if required) to make timely payments from France to Partner pursuant to this Agreement. For the avoidance of doubt, with respect to any applicable withholding taxes, Orange shall gross-up and pay such additional amounts as will result in the receipt by Partner of such amounts as would have been received by it if no such withholding or deduction had been required by the French tax authorities. It shall be Partner's sole responsibility for the payment of any taxes, duties or levies of whatever nature, imposed by the Israeli tax authorities, if any, and to secure any withholding or other tax exemption or clearance certificate or other documentation required (if required) for the payments received in Israel by Partner pursuant to this Agreement.

3.3 Royalties/payments from Partner. The Parties agree that in all events, all Royalties/payments, including, but not limited to, those defined in the Brand Support Agreement and Section 8.1 and as set out in Exhibit B of Amendment No. 7, including those not previously paid by Partner shall be deemed to be and have been offset against other consideration of this Agreement and in full satisfaction of all claims and shall not be any obligation or liability of Partner as of the Effective Date of this Agreement and that Partner shall owe no past or present or future Royalties/payments not heretofore paid by Partner to Orange Entities based on its Annual Service Revenues, or otherwise as Royalties/payments to Orange Entities. The Parties hereby agree to amend the BLA according to the above.

3.4 Accounting. Each Party can apply at its sole discretion its accounting treatment with regards to this Agreement, it being agreed that neither Party shall bear any liability or are bound in any manner by such accounting treatment selected by the other Party at its sole discretion.

4. Non-Competition and Freezing Period.

4.1 From the date of the launch of Partner's New Brand in the State of Israel, and for a period of [***] thereafter ("**Freezing Period**"), Orange Entities agree (a) not to operate in the State of Israel and/or grant a license to the Orange Brand to any person or entity or otherwise to permit the use of the Orange Brand by itself or any third party in the State of Israel in relation to telecommunication services, and (b) not to compete with Partner in the State of Israel in its lines of business including, but not limited to, mobile, fixed line, cable, internet, tv, and over-the-top services ((a) and (b) shall be referred to as "**Freezing Period Activities**"). Notwithstanding the above, after a period of [***] following the launch of Partner's New Brand in the State of Israel, Orange Entities shall only thereafter be entitled to use the Orange Brand in the State of Israel for any activity relating to research and development (R&D), and innovation ("**Permitted Orange Activities**").

4.2 The provisions of Section 4.1 shall come into force upon receipt of the specific exemption from the General Director of the Israeli Antitrust Authority (“**IAA**”) pursuant to Section 14 of the Restrictive Trade Practices Law or any other valid exemption under the above Law (“**Exemption**”). Within 10 business days of receipt of Partner’s Notice of Termination or OBSL’s Notice of Termination, the Parties will convene and fully cooperate in order to allow the Parties to prepare and timely file the application for the Exemption with the IAA. The Parties shall support all necessary applications, discuss any alternative arrangement proposed by the IAA as per Section 4.3 below and take all other actions reasonably required in order to obtain such Exemption.

4.3 In the event that the IAA shall not grant an Exemption regarding the Freezing Period Activities as set forth in Section 4.1(a) or (b) above, or in the event the terms of the Exemption shall affect the scope of the Freezing Period Activities and/or the duration of the Freezing Period, the Parties undertake to accept such substitute arrangement, as shall be approved by the General Director of the IAA, and to adhere thereto, provided that Orange Entities shall not be required to accept a substitute arrangement for the Permitted Orange Activities or for the Freezing Period in relation to the Freezing Period Activities which prolongs any of the restriction periods or the scope of such restrictions set out in Section 4.1. Outside of the scope and/or period of the Exemption, if the Orange Entities intend to engage in Freezing Period Activities in the State of Israel during the Freezing Period, then before commencing any Freezing Period Activities in the State of Israel the Parties shall meet to discuss in good faith to find a mutually acceptable alternative, taking into account the original intent of Section 4.1, to achieve the closest result as that contemplated by Section 4.1. In the event such alternate agreement shall require submission of same to the IAA for an Exemption, then the Parties shall fully cooperate to file with the IAA, as soon as practical, support all necessary applications and take all other actions as reasonably required in order to obtain such Exemption.

4.4 For the avoidance of doubt, the ability of the Parties to reach an alternative agreement and to obtain an Exemption shall not affect the termination of the BLA, and such termination will come into effect in any event.

5. Releases and Covenants Not to Sue.

5.1 General Release and Covenant Not to Sue by Partner. From the Effective Date of this Agreement, Partner, for itself and on behalf of its predecessors, successors and permitted assigns, and all of its and their past, present and future officers, directors, employees, agents and attorneys and its and their past, present, and future parents, affiliates and subsidiaries (collectively, the **“Partner Releasing Parties”**), hereby unconditionally releases and forever discharges, and covenants not to sue, OBSL and Orange and each of their predecessors, successors, administrators, trustees, officers, directors, managers, employees, shareholders, agents, advisors and attorneys and their parents, affiliates and subsidiaries (**“Orange Released Parties”**) of and from any and all claims, actions, causes of action, suits, debts, sums of money, accounts, reckonings, contracts, covenants, controversies, agreements, promises, damages, judgments, executions, proceedings and demands of whatsoever character, nature and kind, known or unknown, suspected or non-suspected, in law or equity, which Partner or the Partner Releasing Parties now have, claim to have or hereafter may have against Orange, OBSL or any of the Orange Released Parties by reason of or arising out of any matter, act or omission related to or occurring at any time prior to or concomitant with the execution of this Agreement. In the event that Orange fails to make any of the Payments pursuant to this Agreement, when they become due and payable, the foregoing general release and covenant not to sue provided by the Partner Releasing Parties to the Orange Released Parties shall be deemed retroactively null and void and of no force and effect and void ab initio. Notwithstanding the foregoing, nothing herein shall preclude Partner Releasing Parties from exercising and enforcing its rights under this Agreement and the BLA, and in the event of Orange having failed to make any of the Payments notably Partner’s right to claim Payments due by Orange in accordance with this Agreement.

5.2 General Release and Covenant Not to Sue by Orange. From the Effective Date of this Agreement, Orange Entities for themselves and on behalf of their predecessors, successors and permitted assigns, and all of their past, present and future officers, directors, employees, agents and attorneys and its past, present, and future parents, affiliates and subsidiaries (“**Orange Releasing Parties**”), hereby unconditionally releases and forever discharges, and covenants not to sue, Partner and each of its administrators, trustees, officers, directors, managers, employees, agents, advisors and attorneys and its parents, affiliates and subsidiaries (“**Partner Released Parties**”) of and from any and all claims, actions, causes of action, suits, debts, sums of money, accounts, reckonings, contracts, covenants, controversies, agreements, promises, damages, judgments, executions, proceedings and demands of whatsoever character, nature and kind, known or unknown, suspected or non-suspected, in law or equity, which Orange, OBSL or the Orange Releasing Parties now have, claim to have or hereafter may have against Partner or any of the Partner Released Parties by reason of or arising out of any matter, act or omission related to or occurring at any time prior to or concomitant with the execution of this Agreement. Notwithstanding the foregoing, nothing herein shall preclude Orange, OBSL or any of Orange Releasing Parties from exercising and enforcing its rights under this Agreement and the BLA.

6. Confidentiality and Non-Disparagement.

6.1 Confidentiality Obligations. The Parties agree not to disclose to anyone who is not a Party to this Agreement or their attorneys, accountants, consultants, advisors or board members: the facts about the Parties’ discussions, negotiations and outcome of same, as well as the existence or terms of this Agreement (other than the fact that they have settled the disputes among them), including the amount, terms and conditions of the payments required to be made hereunder, except as strictly necessary in connection with legal, accounting and tax advice which either Party may seek relating to this Agreement, the preparation of tax returns, disclosures to accountants, regulators, financial institutions, responses to inquiries from legal authorities entitled to receive same or as required by law or regulation or as required to satisfy the conditions and terms of this Agreement, or in the context of legal actions adversely involving such Party to ensure the defense of its rights. In such event said Party, at its sole costs and expense, shall seek a protective order maintaining the confidentiality of the terms of this Agreement. It is expressly understood that as Partner and Orange are publicly held companies, each will comply with such disclosure requirements relating to this Agreement as are required by applicable law or regulation (“**Material Disclosures**”). Such Material Disclosures shall be consistent with the provisions of this Section 6.1 but shall not be subject to the provisions of Section 6.2.

6.2 Mandated Disclosure. If any Party to this Agreement is required by a court or legal authority pursuant to law or regulation to disclose any matter contained in this Agreement, including, but not limited to, the amount, terms or conditions of the Payments, such Party shall provide immediate notice to the other Party so that the other Party may seek, at its sole cost and expense, with the cooperation of the first Party, from the court of competent jurisdiction, a protective order against such court, legal authority, regulatory body or inquiring Party which maintains the confidentiality of the terms of this Agreement. Any disclosure made pursuant to this Section 6.2 by a Party to this Agreement shall not relieve any of the Parties to this Agreement of their obligation to maintain the confidentiality of that information in all other circumstances and shall not be deemed a violation of this provision.

6.3 Public Announcements and Material Disclosures. Unless otherwise required by applicable law (based upon the reasonable advice of counsel), no Party to this Agreement shall make any public announcements in respect of this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without the prior written knowledge and consent of the other Party, which said consent shall not be unreasonably withheld. Notwithstanding the foregoing, the Parties shall issue a joint statement after the Effective Date of this Agreement (“**Joint Settlement Statement**”). The Joint Settlement Statement shall be prepared by Publicis, as instructed by the Parties, and shall be subject to the approval by each of the Parties prior to its release. Publicis costs and expenses shall be exclusively borne by Partner. The Joint Settlement Statement shall be subject to any disclosure requirements of the Parties under applicable law, regulations or determination that it must issue disclosures as to material matters (“**Disclosures**”) and the Parties acknowledge and agree if either Party is legally required to make any such Disclosures, said Disclosures shall not be deemed to be in violation of this provision. Should either Party be questioned about its relationship, or the existence of the Settlement between them, except in the event of Material Disclosures or Mandated Disclosures or Disclosures, the Parties agree that they shall state only, consistent with the Joint Settlement Statement or otherwise to the effect, that “the Parties confirm that the controversies between them have been resolved in all respects.”

6.4 Inadmissibility. The Parties acknowledge that the Payments made hereunder were agreed upon as a compromise and final settlement of the Disputes and all controversies, claims, actions and causes of action of any nature whatsoever, known or unknown, owned, held, possessed or asserted by any Party to this Agreement between or among the named Parties hereto and their respective parents, affiliates, subsidiaries, shareholders, directors, officers, employees and agents and all other business arrangements set forth in this Agreement, and that such payments are not, and may not be construed as an admission of liability by any Party. Nothing in this Agreement shall be construed by the other Party as an admission that any Party and its respective parents, affiliates, subsidiaries, shareholders, directors, officers, employees and agents were engaged in any wrongful, tortious or unlawful activity. No Party admits any wrongdoing whatsoever, and each Party expressly denies any allegation of liability. Each Party agrees that any evidence of the existence or terms of this Agreement, or documents exchanged in confidence between the Parties in the course of the negotiation of this Agreement, shall be inadmissible in any litigation, action, or other proceeding anywhere in the world, except as provided in Section 6.1; provided, however, that such evidence may be offered solely in a proceeding to enforce this Agreement or for a Party to ensure the defense of its rights. In such event, such evidence shall be filed under seal of confidentiality unless precluded by the court or authority convening such action or proceeding.

6.5 Non-Disparagement. The Parties agree not to make any Statement (as defined herein), written or oral, directly or indirectly, which in any way disparages the other in any manner whatsoever, or portrays any Party in a negative light or would in any way place a Party in a future dispute. A "Statement" shall include any utterance, declaration or communication directed to, or under the circumstances reasonably likely to reach, any of the following: (i) journalists or other persons related to the media; (ii) current or prospective employees or employers; (iii) current, prospective, or former officers, board members, directors, employees, shareholders, agents, officials, representatives, insurers, partners, and attorneys of either Party; (iv) any employee or representative of any federal, state, or local governmental entity; (v) each Parties current or prospective customers; (vi) any current or prospective vendors or lenders to a Party; (vii) any subcontractors and (viii) any other persons having a current or prospective business relationship with a Party. Each Party further agrees not to encourage anyone else to disparage or criticize the other Party, or put it in a bad light. The Parties agree that an alleged disparaging statement made by a person not having actual or apparent authority to speak on behalf of a Party shall not be deemed a violation hereof.

7. **Representations and Warranties.** Each Party hereto represents and warrants to the other Parties hereto as of the Effective Date as follows: (i) it has full power and authority and has taken all action necessary to enter into and perform this Agreement; (ii) the execution and performance by it of its obligations hereunder will not constitute a breach of, or conflict with, any other material agreement or arrangement, whether written or oral, by which it is bound; and (iii) this Agreement is its legal, valid and binding obligation, enforceable in accordance with the terms and conditions hereof.
8. **Governing Law, Venue and Dispute Resolution.**
- 8.1 **Governing Law.** This Agreement is governed by, and construed in accordance with the laws of the State of Israel, without regard to the conflict of laws provisions thereof to the extent such principles or rules would require or permit the application of the laws of any jurisdiction other than those of the State of Israel.
- 8.2 **Arbitration of Disputes.** Any dispute arising out of or in connection with this Agreement, the BLA and/or the Brand Extraction Protocol Agreement shall be finally resolved by binding and confidential arbitration administered by the ICC International Court of Arbitration (“ICC”) in accordance with its International Arbitration Rules, subject to the provisions of this Section 8. There shall be three (3) arbitrators. Partner and Orange Entities shall appoint one (1) arbitrator each (“**Party Appointed Arbitrator**”). The two Party Appointed Arbitrators shall, taking into consideration the specificities of the dispute giving rise to arbitration, including, but not limited to, the telecom sector, including branding issues and governing Israeli law, jointly appoint the third arbitrator, who shall serve as the chairperson of the arbitration. If the two Party Appointed Arbitrators are unable to agree on the third arbitrator within thirty (30) days from their appointment, the ICC shall nominate and appoint the third arbitrator taking into consideration the specifics provided above. The place of arbitration shall be Tel Aviv, Israel, and the language of the arbitration shall be English. In order to facilitate the comprehensive resolution of related disputes, the arbitral tribunal shall have jurisdiction over the BLA and/or the Brand Extraction Protocol Agreement, as may be applicable to the arbitration proceedings.

9. **General Provisions.**

9.1 **Definitions.** All capitalized terms used in this Agreement which are defined in the BLA shall have the meaning given in the BLA unless otherwise defined herein.

9.2 **Priority of Terms.** The Parties agree that no joint or other statement made by the Parties shall abrogate or otherwise affect any right or obligation of the Parties arising out of this Agreement. In case of discrepancy in interpretation of the BLA and this Agreement, the terms of this Agreement shall prevail.

9.3 **Full Force and Effect.** The terms and provisions of the BLA remain unmodified and in full force and effect, except to the extent the BLA is expressly and specifically amended by this Agreement as set forth in Exhibit 2.

9.4 **Assignment; Successors.** No Party shall assign or otherwise transfer any of its rights, or delegate or otherwise transfer any of its obligations or performance, under this Agreement, in each case whether voluntarily, involuntarily, by operation of law or otherwise, without the prior written consent of the other Parties hereto. This Agreement is binding upon and inures to the benefit of the Parties hereto and their respective permitted successors and assigns.

9.5 **Further Assurances.** Each of the Parties hereto shall execute and deliver such additional documents, instruments, conveyances and assurances and take such further actions as may be reasonably required to carry out the provisions hereof and give effect to the transactions contemplated hereby.

9.6 **Waiver.** The failure by one Party to require performance of any provision shall not affect that Party's right to require performance at any time thereafter, nor shall a waiver of any breach or default of this Agreement constitute a waiver of any subsequent breach or default or a waiver of the provision itself.

9.7 **Severability.** If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the Parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

9.8 Notices. All notices, requests, consents, claims, demands, waivers and other communications hereunder (each, a “**Notice**”) shall be in writing and shall be deemed given or delivered (a) when delivered personally, (b) if transmitted by facsimile or when confirmation of transmission is received by the sending Party, such facsimile to be confirmed by registered mail or reputable overnight courier, (c) if sent by registered or certified mail, postage prepaid, return receipt requested, on the fifth (5th) day after mailing or (d) if sent by reputable overnight courier, on the fifth (5th) day after mailing; and shall be addressed to the Parties as follows:

If to Orange, to:

78 rue Olivier de Serres
75015 Paris

France

Attention: Group General Secretary and Group General Counsel

Facsimile: + 33 1 57 05 99 69 and +33 1 57 05 98 50

E-mail address: notifications.legal@orange.com

If to OBSL, to:

11th Floor, 5 Merchant Square
London W2 1AY

United Kingdom

Attention: Company Secretary

E-mail address: ipr@orange.com

If to Partner, to:

Nomi Sandhaus
VP Legal and Regulatory Affairs & Company Secretary
8 Amal Street
Afek Industrial Park
Rosh Ha'ayin Israel
Telephone: +972 54 3600700
Telefax: +972 54 7814193
Email: nomi.sandhaus@orange.co.il

With a copy to:

Richard D. Heideman, Esq.
Heideman Nudelman & Kalik, P.C.
1146 19th Street, NW - Fifth Floor
Washington, DC 20036
Telephone +1 202 463-1818
Telefax +1 202 463-2999
Email: rdheideman@hnklaw.com
attorneys@hnklaw.com

or to such other address as such Party may indicate by a notice delivered to the other Parties five Business Days in advance.

9.9 Rules of Interpretation and Construction. For purposes of this Agreement, (a) the words "include," "includes" and "including" shall be deemed to be followed by the words "without limitation"; (b) the word "or" is not exclusive; and (c) the words "herein," "hereof," "hereby," "hereto" and "hereunder" refer to this Agreement as a whole. Unless the context otherwise requires, references herein: (i) to sections, schedules and exhibits mean the sections of, and schedules and exhibits attached to, this Agreement; (ii) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof; and (iii) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the Party drafting an instrument or causing any instrument to be drafted.

9.10 Costs and Expenses. Except as specifically provided in this Agreement, each Party will be responsible for its own costs, expenses and legal fees incurred in connection with the negotiation and drafting of this Agreement and the performance of its obligations under this Agreement.

9.11 Counterparts/Copies. This Agreement will be executed in multiple counterparts, at separate times and places, which together shall be deemed to be one original instrument. A copy, facsimile or PDF hereof, shall be deemed as valid and binding as an original.

9.12 Entire Agreement. This Agreement constitutes the sole and entire agreement of the Parties to this Agreement with respect to the subject matter contained herein, and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter.

[End of text; signature page follows]

WHEREFORE, the undersigned Parties, with authority duly given, execute this Agreement of their own free act and deed.

PARTNER COMMUNICATIONS COMPANY LTD.
by its authorized representatives:

Adam Chesnoff
Chairman of the Board of Directors

Dated

Isaac Benbenisti
Deputy Chief Executive Officer

Dated

Ziv Leitman
Chief Financial Officer

Dated

ORANGE BRAND SERVICES, LTD.
by its authorized representative:

Dated

ORANGE SA, formerly known as
FRANCE TELECOM SA
by its authorized representative:

Pierre Louette
Deputy CEO, Group General Secretary

Dated

EXHIBIT 2 – AMENDMENTS TO THE BLA AGREED BY THE PARTIES

1. Clauses 2.4 and 2.5 of the Agreement are added as Sections 6.7 and 6.8 of the Restated Amendment Agreement to the Brand License Agreement dated 14 September 1998 (“Amendment Agreement”).
2. Clause 2.7 of the Agreement is hereby inserted at the end of Clause 6 of the Amendment Agreement.
3. Clause 3.3 of the Agreement shall supersede all provisions of the BLA and the Brand Support Agreement, without limitation, in relation to the payment of Royalties/payments from Partner to OBSL.
4. Clause 6.4 of the Amendment Agreement is hereby deleted and replaced by Clause 4 of the Agreement.
5. Clause 8.2 shall supersede Clause 27 of the BLA and Clause 9 of the template Brand Extraction Protocol Agreement with regard to the jurisdiction of the Courts of the State of Israel over any dispute arising out of or in connection with this Agreement, the BLA and/or the Brand Extraction Protocol Agreement.
6. Clause 7 of the Amendment Agreement, as amended by Clauses 12-14 of Amendment 7 is hereby deleted and replaced with Clause 9.8 of the Agreement.



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8 (Nos. 333-101652, 333-137102, 333-153419, 333-206420 and 333-207946) of Partner Communications Company Ltd. of our report dated March 13, 2016 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F. We also consent to the reference to us under the heading Selected Financial Data in this Form 20-F.

Tel-Aviv, Israel
March 13, 2016

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited



February 14, 2016

Partner Communications Company Ltd.
8 Amal Street
Afeq Industrial Park
Rosh-Ha'ayin 48103
Israel

Dear Sirs:

On behalf of Giza Singer Even, 7 Jabotinsky St. Ramat-Gan (the "Consultant"), I hereby confirm that the Consultant has reviewed the information set forth in the Annual Report on Form 20-F for the year ended December 31, 2015 (the "Form 20-F"), for Partner Communications Company Ltd. under Item 5A.1f "Acquisition of 012 Smile", Item 5A.1r "Critical Accounting Estimates and Judgments", and in Note 4 and Note 13 to the consolidated financial statements included in the Form 20-F, with respect to testing for impairment of assets and the results thereof.

The Consultant hereby confirms the information referred to above and consents to being named in the Form 20-F as an "expert".

By: ____/s/____

Giza Singer Even LTD.

Name: Nir Harush
Title: Partner

I, Isaac Benbenisti, certify that:

- (1) I have reviewed this annual report on Form 20-F of Partner Communications Company Ltd.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
- (4) The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
- (5) The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 14, 2016

By: /s/ Isaac Benbenisti

Isaac Benbenisti
Chief Executive Officer

I, Ziv Leitman, certify that:

- (1) I have reviewed this annual report on Form 20-F of Partner Communications Company Ltd.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
- (4) The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
- (5) The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 14, 2016

By: /s/ Ziv Leitman

Ziv Leitman
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Partner Communications Company Ltd. (the "Company") on Form 20-F for the period ending December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 14, 2016

By: /s/ Isaac Benbenisti

Name: Isaac Benbenisti
Title: Chief Executive Officer

Date: March 14, 2016

By: /s/ Ziv Leitman

Name: Ziv Leitman
Title: Chief Financial Officer

PARTNER COMMUNICATIONS COMPANY LTD.

AMENDED AND RESTATED 2004 EQUITY INCENTIVE PLAN

As last adopted by the Compensation Committee on March 9, 2016
and by the Board of Directors on March 13, 2016

1. **Purpose**

This Partner Communications Company Ltd. 2004 Equity Incentive Plan (formerly known as the Partner Communications Company Ltd. 2004 Share Option Plan), as amended from time to time, (the "*Plan*") is intended to promote the interests of Partner Communications Company Ltd. (the "*Company*") and its shareholders by providing employees, directors and officers, and advisors of the Company or any Affiliate with appropriate incentives and rewards to encourage them to enter into and continue in the employ of, or service to, the Company or any Affiliate and to acquire a proprietary interest in the long-term success of the Company. The Plan is designed to enable employees, directors and officers of the Company or any Affiliate to benefit from the provisions of Section 102 of the Israeli Income Tax Ordinance [New Version], 1961, as amended, and any regulations, rules, orders or procedures promulgated thereunder.

2. **Definitions**

As used in the Plan, the following definitions shall apply to the terms indicated below:

"*Affiliate*" means any entity (a) with respect to which the Company is an "employing company" within the meaning of Section 102(a) of the Ordinance; and (b) is approved by the Committee as an Affiliate to which the terms of this Plan apply.

"*Approved 102 Grant*" means a Grant granted pursuant to Section 102(b) of the Ordinance and held in trust by a Trustee for the benefit of the Participant.

"*Capital Gain Grant (CGG)*" means an Approved 102 Grant elected and designated by the Company to qualify under the capital gain tax treatment in accordance with the provisions of Section 102(b)(2) of the Ordinance.

"*Cashless Formula*" means the following formula:

$$\frac{(A \times B) - (A \times C)}{B}$$

A = the number of vested Options the Participant requests to exercise as written in the Notice of Exercise;

B = the closing sale price of an Ordinary Share on the Tel Aviv Stock Exchange, on the last trading day before the Notice Date (as defined in Section 8.3), as such closing sale price is published by the Tel Aviv Stock Exchange;

C = the Option Exercise Price.

"*Cashless Options*" shall have the meaning set forth in Section 8.3 (i)(y) or (ii).

"*Cause*" when used in connection with the termination of a Participant's employment or service by the Company or any Affiliate, shall mean (a) the willful and continued failure by the Participant to perform his duties (including the duty of care and the fiduciary duty as set forth in the Companies Law) and obligations to the Company or any Affiliate (other than any such failure resulting from Retirement or Disability, as hereinafter defined or any such failure approved by the Company, subject to applicable law); or (b) the willful engaging by the Participant in misconduct which is injurious to the Company or any Affiliate, provided, however, that in relation to employees or officers of the Company or any Affiliate, in each case the actions or omissions of the Participant are sufficient to deny the Participant severance payment under the Severance Payment Law, 1963.

<i>“Commencement Date”</i>	with respect to the vesting schedule of an Option or an RSU or the earning schedule of a Restricted Share, shall be the Grant Date, unless another date for the commencement of the vesting or earning schedule with respect to such Option, RSU or Restricted Share has been set by the Committee and written in the Grant Instrument.
<i>“Committee”</i>	shall mean the Compensation Committee of the Company's Board of Directors (as may be re-named by the Board of Directors) or any committee that will replace it by law.
<i>“Companies Law”</i>	shall mean the Israeli Companies Law, 1999, as may be amended from time to time.
<i>“Company”</i>	shall mean Partner Communications Company Ltd., a company incorporated under the laws of the State of Israel.
<i>“Compensation Policy”</i>	The Compensation Policy, if any, as adopted or amended from time to time by the Company, pursuant to Section 267A of the Companies Law.
<i>“Controlling Shareholder”</i>	shall have the meaning ascribed to such term in Section 32(9)(a) of the Ordinance.
<i>“Designated Beneficiary”</i>	of a Participant, shall mean the beneficiary designated by such Participant or deemed as such Participant's Designated Beneficiary pursuant to Section 26 hereto, upon the death of the Participant.
<i>“Disability”</i>	shall mean any physical or mental condition, which is recognized as a disability pursuant to the employment practices adopted by the Company (or, if approved by the Committee, the Affiliate employing the Participant) and prevents the Participant from continuing to work in his position or in a comparable one in the Company or the employing Affiliate (as the case may be) or prevents the Participant from continuing to provide services to the Company or such Affiliate. Determination of a Disability shall be made in consultation with a physician selected by the Committee and shall be finally and conclusively determined by the Committee at its absolute discretion.
<i>“Effective Date”</i>	means July 12, 2004, the date on which the Board of Directors first approved the Plan.
<i>“Employee”</i>	means a person who is employed by the Company or any of its Affiliates, including an individual who is serving as a director or an office holder all as defined in Section 102, who is not a Controlling Shareholder.
<i>“Exercise Date”</i>	shall have the meaning set forth in Section 11 below.
<i>“Exercise Period”</i>	shall have the meaning set forth in Section 8.1.3 and 8.3.3, as the case may be, below, unless extended pursuant to Section 21 below or shortened pursuant to Sections 6.2 and/or 9 below.

<i>“Grant”</i>	means the grant hereunder of any Granted Security, granted to a Participant pursuant to this Plan, whether granted singly, in combination or in tandem (each, individually referred to as a “Grant”).
<i>“Grant Date”</i>	of a Granted Security means the date on which the Committee resolves to grant such Granted Security, unless another future date is specified by the Committee; <u>provided, that</u> , if further approvals are required for the granting of a Granted Security, the Grant Date shall mean the date that the last required approval for the grant of such Granted Security shall have been obtained, unless specified otherwise in the Grant Instrument.
<i>“Grant Instrument”</i>	shall have the meaning set forth in Section 7.2 below.
<i>“Granted Security”</i>	Any Option, Restricted Share, RSU or any other security granted to a Participant pursuant to this Plan, whether granted singly, in combination or in tandem.
<i>“ITA”</i>	means the Israeli Tax Authorities.
<i>“Maximum Trust Period”</i>	The maximum period set in the Grant Instrument of a Granted Security granted on or after 18 June, 2014 as may be extended by the Committee, from time to time, at its sole and absolute discretion.
<i>“Net Income”</i>	means the amount in New Israeli Shekels specified as “Net Income” of the Company for the relevant period in the unaudited or audited, as the case may be, Financial Statements of the Company for such period as approved by the Board of Directors of the Company at the relevant time.
<i>“Non-Employee”</i>	means a person who is not an Employee of the Company or its Affiliates.
<i>“Option”</i>	shall mean an option to purchase one or more Ordinary Shares granted pursuant to this Plan.
<i>“Option Exercise Price”</i>	shall have the meaning set forth in Section 8.1.1 and as may be adjusted from time to time in accordance with Sections 3.2 or 8.1.1 below.
<i>“Ordinary Income Grant (OIG)”</i>	means an Approved 102 Grant elected and designated by the Company to qualify under the ordinary income tax treatment in accordance with the provisions of Section 102(b)(1) of the Ordinance.
<i>“102 Grant”</i>	means any Grant granted to Employees pursuant to Section 102 of the Ordinance.
<i>“3(i) Grant”</i>	means a Grant granted pursuant to Section 3(i) of the Ordinance to any person who is a Non-Employee.
<i>“Ordinary Shares”</i>	shall mean ordinary shares of the Company, par value NIS 0.01 each.
<i>“Participant”</i>	shall mean an Employee or a Non-Employee to whom a Grant is granted pursuant to the Plan, and, upon his death or legal incapacity, his successors, heirs, executors and administrators, as the case may be.

<i>“Plan”</i>	shall mean this Partner Communications Company Ltd. 2004 Equity Incentive Plan (formerly known as the Partner Communications Company Ltd. 2004 Share Option Plan), as amended from time to time.
<i>“Restricted Share”</i>	means an Ordinary Share issued or transferred to a Participant pursuant to Section 8.2 of this Plan, which is subject to restrictions or limitations set forth in this Plan and in the related Grant Instrument.
<i>“RSU”</i>	means a right to receive one Ordinary Share granted to a Participant pursuant to Section 8.3 of this Plan, which is subject to restrictions or limitations set forth in this Plan and in the related Grant Instrument.
<i>“Restriction Period”</i>	shall have the meaning set forth in Section 8.2.2 below.
<i>“Retirement”</i>	shall mean the termination of a Participant's employment with or service to the Company or the Affiliate employing him as a result of his reaching the earlier of (a) the legal age for retirement and (b) the age for retirement identified in his employment or service agreement.
<i>“Section 3(i)”</i>	means Section 3(i) of the Ordinance and any regulations, rules, orders or procedures promulgated thereunder as now in effect or as hereafter amended.
<i>“Section 102”</i>	means Section 102 of the Ordinance and any regulations, rules, orders or procedures promulgated thereunder as now in effect or as hereafter amended.
<i>“Section 102 Rules”</i>	means the Income Tax Rules (Tax Relief for Issuance of Shares to Employees), 2003 as now in effect or as hereafter amended.
<i>“Tax Ordinance” or “Ordinance”</i>	shall mean the Israeli Income Tax Ordinance [New Version], 1961, as amended, and any regulations, rules, orders or procedures promulgated thereunder.
<i>“Trustee”</i>	means any individual appointed by the Company to serve as a trustee and approved by the ITA, all in accordance with the provisions of Section 102(a) of the Ordinance.
<i>“Termination Date”</i>	means close of business of the Company on the date which falls twenty (20) years after the Effective Date.
<i>“Unapproved 102 Grant”</i>	means a Grant granted pursuant to Section 102(c) of the Ordinance and not held in trust by a Trustee.

Reference to the male person is done for convenience purposes only and also applies to the female person.

3. **Shares Subject to the Plan**

- 3.1. *Shares Available for Grants.* As of March 13, 2016, the aggregate number of Ordinary Shares reserved for issuance under this Plan is 1,651,599 Ordinary Shares, representing approximately 1.03% of the total issued share capital of the Company as of such date.

The total number of Ordinary Shares reserved for issuance under the Plan shall be subject to adjustment as required for the implementation of the provisions of the Plan, in accordance with Section 3.2 below. In the event (i) an Option granted to any Participant has expired, canceled, forfeited or otherwise terminated in whole or in part, for any reason; (ii) any Ordinary Share has, after issuance or transfer as Restricted Share, returned to the Company due to a Participant's failure to comply with the terms and conditions of a Grant or for any reason hereunder; (iii) an RSU granted to any Participant was canceled, forfeited or otherwise terminated due to a Participant's failure to comply with the terms and conditions of a Grant or for any reason hereunder; or (iv) an Option has been exercised pursuant to the Cashless Formula, and therefore, shares reserved for issuance upon the exercise of such Option were not issued thereunder; such shares reserved for issuance of such expired, cancelled, forfeited or terminated Option or RSU, such Restricted Shares returned to the Company or such remaining unissued shares following a Cashless Formula exercise shall become available for issuance or transfer under any Grant which the Company may grant under the Plan.

3.2. *Adjustments.* Upon the occurrence of any of the following events, a Participant's rights under any Grant granted hereunder shall be adjusted as hereinafter provided:

3.2.1. Recapitalization.

In the event the Ordinary Shares shall be subdivided or combined into a greater or smaller number of shares, or in the event of any other corporate capitalization event of a significantly similar nature, each Participant shall be entitled, upon exercising a vested Option or a vested RSU and subject to the conditions herein stated, to be issued in respect of the Option or the RSU, such number of Ordinary Shares which such Participant would have been entitled to purchase had such event or events not occurred, and appropriate adjustments shall be made in the exercise price per share (if any) to reflect such subdivision or combination, so that Participants are not materially better or worse off as a result of the relevant event, and provided that any such adjustment shall give the Participant the same proportion of the issued share capital of the Company for which such Participant would have been entitled to subscribe had he exercised all the Options or RSUs held by him immediately prior to such adjustment and that such adjustment shall be made on the basis that the aggregate exercise price per share payable by the Participant on the full exercise of any Option or RSU shall remain as nearly as possible the same (but not greater than) as it was before such event.

3.2.2. Bonus Shares.

In the event the Company distributes bonus shares, each Participant upon exercising such Option or RSU shall be issued by the Company (for the exercise price payable upon such exercise, if any), the Ordinary Shares as to which he is exercising his Option or RSU and, in addition thereto (at no additional cost), such number of shares of the class or classes in which such bonus shares were distributed which he would have received if he had been the holder of the Ordinary Shares as to which he is exercising his Option or RSU at all times between the date of issuance of such Option or RSU on behalf of a Participant in the name of the Trustee and the date of its exercise. In such event, the Exercise Price per Option or RSU (if any) will be reduced by the ratio of the bonus shares distribution (*i.e.*, the number of bonus shares distributed divided by the total number of Ordinary Shares immediately following the said distribution of bonus shares).

For illustration purposes only, in the event the Company allocated 100 Options to a Participant at an Exercise Price of NIS 55 per Option, and following that the Company distributed bonus shares at a 1:1 ratio while the price of an Ordinary Share on the TASE prior to the distribution of the bonus shares was NIS 80 and immediately following such distribution of bonus shares was NIS 40, then upon the exercise of such Options immediately following the distribution of bonus shares, the number of Exercise Shares issued to the Participant would be 62 Ordinary Shares pursuant to the following calculation:

$$[200 \times (40-27.5)/40] = 62.5$$

The number of Exercise Shares resulting as of the said distribution shall be 62 Ordinary Shares only as no fractional shares will be issued.

3.2.3. Rights Offering.

Options and RSUs

In the event of a rights offering conducted by the Company, the number of Ordinary Shares issued as a result of the exercise of Options or RSUs shall be adjusted to the benefit component in the rights offering as reflected in the ratio between the closing price of an Ordinary Share on the TASE on the last trading prior to the ex-day and the basis price of an Ordinary Share on the TASE ex-rights. For the avoidance of doubt, the Exercise Price shall not be reduced in any event to less than the nominal value of an Ordinary Shares.

Restricted Shares

In the event of a rights offering conducted by the Company to its shareholders, the Trustee will sell on the Rights Trading Day on the TASE (as such term is defined in the rights offering document) all the rights received for all Restricted Shares that have not vested by the record date determined for such rights offering (including). The consideration received by the Trustee from such sale (the "Consideration") will be allocated among all said unvested Restricted Shares *pro rata*. Upon release of any Restricted Shares from the Trustee to a Participant in accordance with the terms of this Plan, the Trustee will transfer to the Participant also such portion of the Consideration allocated for such released Restricted Shares. Consideration for Restricted Shares that were returned to the Company pursuant to the terms of this Plan will be transferred to the Company together with such Restricted Shares. For the avoidance of doubt, Participants who were granted Restricted Shares which have vested prior to or on the record date and are held by the trustee may participate in the rights offering as any other shareholder of the Company and may instruct the Trustee to act accordingly.

3.2.4. Dividend

Options

(a) *Options granted on or after February 23, 2009, but prior to May 8, 2012*

With respect to Options granted on or after February 23, 2009 but prior to May 8, 2012, at any time after the grant of such Options that the Company distributes cash dividends in the ordinary course, with respect to all of its issued and outstanding Ordinary Shares, 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*"), and the record date for determining the right to receive such dividends is earlier than the Exercise Date of such Options, then the Option Exercise Price (as adjusted from time to time) for each Ordinary Share underlying an Option (granted on or after February 23, 2009 and whether vested or not as at the relevant record date), not exercised prior to such record date, shall be reduced, *ipso facto*, as at such record date, by an amount equal to the gross amount of the Excess Dividend per Ordinary Share.

(b) *Options granted on or after May 8, 2012, but prior to March 13, 2016*

Only with respect to Options granted on or after May 8, 2012 (or granted earlier but become subject to this provision thereafter) but prior to March 13, 2016, at any time after the grant of such Options that the Company distributes cash dividends in the ordinary course, with respect to all of its issued and outstanding Ordinary Shares, and the record date for determining the right to receive such dividends is earlier than the Exercise Date of such Options, then the Option Exercise Price (as adjusted from time to time) for each Ordinary Share underlying such Option (whether vested or not as at the relevant record date), not exercised prior to such record date, shall be reduced, *ipso facto*, as at such record date, by the gross dividend amount so distributed (the "*Full Dividend*") per Ordinary Share (and not the Excess Dividend).

The Excess Dividend (with respect to Options granted on or after February 23, 2009) or the Full Dividend (with respect to Options granted on or after May 8, 2012 (or granted earlier but become subject to this provision thereafter)) (as the case may be) per Ordinary Share will be determined on a quarterly basis with an annual adjustment on the fourth quarter of each financial year as follows:

- (a) In respect of the first three quarters of each financial year, the Excess Dividend or the Full Dividend (as the case may be) per Ordinary Share for each quarter will be determined on the basis of the cash dividends distributed and the Net Income for such quarter and the number of Ordinary Shares on the relevant record date; and
- (b) In respect of the fourth quarter of each financial year, the Excess Dividend or the Full Dividend (as the case may be) per Ordinary Share for the said quarter will be determined on the basis of the total cash dividends distributed and the Net Income for the full financial year and the number of Ordinary Shares on the relevant record date and the deduction of the aggregate Excess Dividend or Full Dividend (as the case may be) per Ordinary Share for the preceding three quarters. For the avoidance of doubt, the downward adjustments to Option Exercise Price made in the preceding three quarters pursuant to sub-paragraph (a) above shall be final and binding and shall not be reversed in the fourth quarter of a financial year.

At any time that the Company distributes cash dividend other than in the ordinary course, with respect to all of its issued and outstanding Ordinary Shares, and the record date for determining the right to receive such dividends is earlier than the Exercise Date of Options, then the Option Exercise Price (as adjusted from time to time) for each Ordinary Share underlying an Option (whether vested or not), not exercised prior to such record date, shall be reduced, as at such record date, by the gross dividend amount so distributed per Ordinary Share; provided, that any adjustment provided for in this paragraph shall be cumulative to any other adjustments contemplated under the immediately preceding paragraph or approved by the shareholders of the Company in general meeting.

(c) *Options granted on or after March 13, 2016*

In the event the Company distributes cash dividends, then the Option Exercise Price for each Ordinary Share underlying such Option (whether vested or not as at the relevant record date), not exercised prior to such record date, shall be reduced, ipso facto, as at the record date determining the right to receive such dividend, by the gross dividend amount so distributed per Ordinary Share.

In any event, the Option Exercise Price shall not be reduced to less than the par value of an Ordinary Share.

Restricted Shares

In the event the Company distributes cash dividends, the Trustee will hold such dividend amounts with respect to any Restricted Shares held by the Trustee on the record date for such dividend distribution. Upon release of any Restricted Shares from the Trustee to a Participant in accordance with the terms of this Plan, the Trustee will transfer to the Participant also the dividends accumulated for such Restricted Shares (at a nominal value). In the event Restricted Shares are returned to the Company pursuant to the terms of this Plan, the Trustee will also transfer to the Company the dividend amount accumulated for such Restricted Shares (at a nominal value) together with such Restricted Shares.

RSUs

In the event the Company distributes cash dividends, the number of Ordinary Shares issued as a result of the exercise of RSUs shall be adjusted to the benefit component in the dividend as reflected in the ratio between the closing price of an Ordinary Share on the TASE on the last trading prior to the ex-day and the basis price of an Ordinary Share on the TASE ex-dividend.

3.2.5. Winding Up.

In the event of an effective resolution being proposed for the voluntary winding-up of the Company, any Participant may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time prior to the date on which such resolution is passed, exercise his vested Options or vested RSUs (to the extent not already exercised) either to its full extent or to the extent specified in such Notice of Exercise in accordance with the provisions of Section 8.1.5 or Section 8.3.4 (as the case may be) and shall accordingly be entitled, in respect of the Ordinary Shares to be issued upon the exercise of his or her vested Option or vested RSUs, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the holders of the Ordinary Shares in issue on the date prior to the date of such resolution. Restricted Shares earned at the time the voluntary winding-up resolution is passed, would be automatically treated in the same manner as all other Ordinary Shares of the Company (including, without limitation, under Section 10.5 of this Plan).

3.2.6. Merger; Consolidation; Reorganization.

If upon a upon a merger, consolidation, reorganization, recapitalization or similar event or transaction the Ordinary Shares shall be exchanged for other securities of the Company and/or for securities of another corporation (a "*Successor Entity*") and/or for a cash amount and/or for any other type of consideration, then, each Granted Security shall, at the sole and absolute discretion of the Board of Directors, either solely or in any combination: (i) be substituted for a similar granted security to purchase shares of the Successor Entity, and appropriate adjustments shall be made in the exercise (or other) price per share to reflect such exchange; (ii) be assumed by the Successor Entity such that the Participant may exercise the Granted Securities for such number of shares of the Successor Entity or amount of other securities thereof, and appropriate adjustments shall be made in the purchase (or other) price per share (if any) to reflect such exchange; or (iii) be substituted for "phantom" similar granted securities of the Company or the Successor Entity, and represent only a financial right to receive the cash amount of the fair market value (determined from time to time but at least annually by a financial expert appointed by the Committee or by another method determined by the Board of Directors) of the Ordinary Share underlying the Granted Security *minus* the exercise (or other) price of such Granted Security ("*Phantom Granted Securities*") (if any).

- 3.3. Upon the occurrence of any of the events detailed in Section 3.2, the class and aggregate number of shares issuable pursuant to the Plan (as set forth in Section 3.1 hereof), in respect of which Options or RSUs have not yet been granted, shall also be appropriately adjusted, to the extent necessary, to reflect the events specified in Section 3.2. Similarly, appropriate adjustments shall be made in the number and other pertinent elements of any outstanding Restricted Shares or RSUs, with respect to which restrictions have not yet lapsed prior to any such change.
- 3.4. If there has been any alteration in the capital structure of the Company as referred to in Section 3.2, the Company shall, upon receipt of a Notice of Exercise (pursuant to Section 8.1.5 below) inform the Participant of such alteration and shall inform the Participant of the adjustment to be made.

- 3.5. The Committee shall determine the specific adjustments to be made in accordance with Section 3 and with the rules and regulations of any stock exchange applicable from time to time to the Company, by reason of their applicability to its shareholders or otherwise. A determination made in accordance with this Section 3 shall be conclusive and binding on the Participants.

4. **Granting of Granted Securities**

- 4.1. The persons eligible for participation in the Plan as Participants shall include any Employees or Non-Employees of the Company or of any Affiliate; provided, however, that (i) Employees may only be granted 102 Grants and (ii) Non-Employees may only be granted 3(i) Grants.
- 4.2. The Company may designate Grants granted to Employees pursuant to Section 102 as Unapproved 102 Grants or Approved 102 Grants.
- 4.3. The grant of Approved 102 Grants shall be made under this Plan adopted by the Board, and shall be conditioned upon the approval of this Plan by the ITA.
- 4.4. Approved 102 Grants may either be classified as Capital Gain Grants (“CGGs”) or Ordinary Income Grants (“OIGs”).
- 4.5. No Approved 102 Grants may be granted under this Plan to any eligible Employee, unless and until the Company’s election of the type of Approved 102 Grants as CGG or OIG granted to Employees (the “*Election*”), is appropriately filed with the ITA. Such Election shall become effective beginning on the first Grant Date of an Approved 102 Grant under this Plan and shall remain in effect at least until the end of the year following the year during which the Company first granted Approved 102 Grants (under this Plan or previous plans). The Election shall obligate the Company to grant *only* the type of Approved 102 Grant it has elected, and shall apply to all Participants who were granted Approved 102 Grants during the period indicated herein, all in accordance with the provisions of Section 102(g) of the Ordinance. For the avoidance of doubt, such Election shall not prevent the Company from granting Unapproved 102 Grants simultaneously.
- 4.6. All Approved 102 Grants must be held in trust by a Trustee, as described in Section 10 below.

For the avoidance of doubt, the designation of Unapproved 102 Grants and Approved 102 Grants shall be subject to the terms and conditions set forth in Section 102.

5. **Administration of the Plan**

- 5.1. *Committee.* The Plan shall be administered by the Committee, which has been appointed by and serves at the direction of the Board of Directors of the Company. The Board of Directors may from time to time remove members from, or add members to, the Committee, and may fill vacancies in the Committee however caused.
- 5.2. *Committee Actions.* The Committee has selected one of its members as its Chairman and holds its meetings at such times and places, as it determines. Actions at a meeting of the Committee at which a majority of its members are present, or acts reduced to or approved in writing by all members of the Committee, are the valid acts of the Committee. The Committee keeps records of its meetings and makes such rules and regulations for the conduct of its business, as it deems advisable.

- 5.3. *Authority of Committee.* The Committee has the authority, at its sole discretion, subject to the approval of the Board of Directors - if such approval is required under the Companies Law - and subject to any applicable law and regulations and not inconsistent with the express provisions of the Plan, to administer the Plan and to exercise all the powers and authorities either specifically granted to it under the Plan or necessary or advisable in the administration of the Plan including, without limitation, the authority at its discretion to (A) with respect to Options - determine the persons to whom Options are granted, the number of shares covered by each Option, the time or times at which Options are granted, the Commencement Date and the Option Exercise Price, and any other term to be included in the Grant Instrument which is permitted by the Plan; and (B) with respect to Restricted Shares and RSUs - determine the persons to whom Restricted Shares or RSUs are granted, the number of Restricted Shares or RSUs awarded, the Commencement Date, the price (if any) to be paid by the Participant for such Restricted Share or for the exercise of the RSUs (unless specified otherwise in the Grant Instrument, the price will be zero), and any other term to be included in the Grant Instrument which is permitted by the Plan. The Committee has also the discretion to determine the performance targets of the Company and any of its Affiliates, or any other criteria, if any, which the Committee determines must be met to remove any restriction (including vesting or earning period) on such Grant, the Maximum Trust Period and any other term, limitation, restriction, and condition of the Options, Restricted Shares or RSUs, which shall be consistent with this Plan. The provisions of Options, Restricted Shares or RSUs need not be the same with respect to each Participant.

The Committee also has the power and authority to determine whether, to what extent, and under what circumstances an Option, an RSU or a Restricted Share may be settled, canceled, forfeited, exchanged, surrendered or returned to the Company; to construe and interpret the Plan and any Grant Instrument and Granted Security; and to make all other determinations deemed necessary or advisable for the administration of the Plan.

- 5.4. *Interpretation and Construction.* The interpretation and construction by the Committee of any provision of the Plan or of any Grant Instrument or Granted Securities thereunder shall be final and conclusive, unless otherwise determined by the Board of Directors of the Company.
- 5.5. *Acceleration and Other Amendments.* Save and except for the occurrence of events specified in Section 6 whereupon the Committee shall comply with the provisions therein, the Committee may, at its sole and absolute discretion, accelerate the date on which any Granted Security granted or earned under the Plan becomes exercisable or earned, accelerate any Restriction Period, waive or amend the operation of Plan provisions respecting exercise (or earning) after termination of employment, re-price the Option Exercise Price or the price (if any) payable for Restricted Shares or RSUs, make the Granted Securities subject to the Plan in its form at the time of such waiver or amendment, or otherwise amend any of the terms of any Grant Instrument or Granted Securities, subject to the provisions of the Tax Ordinance, provided, however, that no such waiver or amendment shall adversely affect any Participant's rights under any outstanding Grant Instrument or Granted Security under the Plan without the consent of such Participant.

6. **Acceleration upon Change in Control Event**

- 6.1. Without derogating from the provisions of Section 3 above, in the event that within six months after a Change in Control of the Company, a Participant's employment with or service to the Company or the Affiliate employing him to which he provides services is terminated for any reason (other than termination for Cause), or if a notice of such termination was provided to the Participant during the said six months period (even where the actual termination of employment occurs following such six-month period), then the Granted Securities granted to such Participant which are not vested or earned shall be automatically and immediately accelerated and vested or earned (as the case may be), so that all such Granted Securities shall become vested and exercisable or earned (as the case may be) and all restrictions or restriction periods applicable to any Granted Security (including, without limitation, the Restriction Period and/or the satisfaction of the threshold condition for grant) shall automatically expire.
- 6.2. In the event the vesting of Options and/or RSUs was accelerated in accordance with Section 6.1 above, the Participant will be entitled to exercise such Options and/or RSUs during a period of 90 days as of the date of termination of employment or service of such Participant - in the event the termination of employment or service of the Participant was made voluntarily by the Participant, or during a period of one year as of the date of termination of employment or service of such Participant - in the event the termination of employment or service of the Participant was made by the Company or an Affiliate. All outstanding Options and RSUs so accelerated and vested in the manner as aforesaid which are not exercised within the 90-day period or the one year period after the date of termination of employment or service (as the case may be) shall automatically terminate and cease to be outstanding upon the expiry of the aforesaid relevant period. Restricted Shares so earned (as well as Ordinary Shares issued pursuant to the exercise of Options and/or RSUs) will be treated in the same manner as all other Ordinary Shares of the Company (including, without limitation, under Section 10.5 of this Plan). The Committee has the power to extend such 90-day or one-year period at its discretion if it deems it to be appropriate under special circumstances.

- 6.3. For the purpose of this Section 6, "Change in Control" shall mean the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:
- (i) the acquisition which results in holding, directly or indirectly, of (a) the power to control at least 50% of the Company's share capital; or (b) the power (exercisable alone or together in concert with others) to direct or cause the direction of the management and policies of the Company, whether through the ownership of Ordinary Shares, by law, contract or otherwise; or (c) the power (exercisable alone or together in concert with others) to elect or appoint at least 50% of the Board of Directors of the Company;
 - (ii) a merger, consolidation or similar transaction (including an arrangement) of the Company following which the Company is not a surviving corporation;
 - (iii) a merger, consolidation or similar transaction (including an arrangement) following which the holders of voting securities of that other company holding, in aggregate, 50% or more of all outstanding Ordinary Shares of the Company (including a merged or successor company) resulting from such merger, consolidation or similar transaction; or
 - (iv) the sale, lease or exchange of all or substantially all of the property of the Company, other than in the ordinary course of business of the Company or to its subsidiary;

Provided that any event or transaction contemplated in sub-paragraph (i), (ii) or (iii) shall not constitute a Change in Control for purposes of this Plan if following such event or transaction, 50% or more of voting securities of the Company remain held directly or indirectly by the ultimate shareholder prior to such event or transaction (the "Ultimate Shareholder") or any company or other person controlled directly or indirectly in any manner what so ever whether through the ownership of voting securities or otherwise in fact by the Ultimate Shareholder.

7. **Grants under the Plan: Grant Instrument**

- 7.1. *Eligible Grantees.* Granted Securities may be granted to any Employee or Non- Employee of the Company or any Affiliate selected by the Committee provided, however, that no Granted Security may be granted by the Committee to any person serving as a member of the Committee at the time of the grant. The grant of a Granted Security to a Participant shall neither entitle such Participant to, nor disqualify him from, receiving any other grants of Granted Securities pursuant to the Plan or participating in any other share option plan or other incentive plan. Any grant of Granted Securities under the Plan shall be in compliance with the requirements under applicable laws and regulations (including any stock exchange rules), including by reason of their applicability to the Company's shareholders or otherwise.
- 7.2. *Grant Instrument.* Each Granted Security granted under the Plan shall be evidenced by a written instrument signed by the Company and accepted in writing by the Participant which shall be accompanied by a copy of this Plan and shall contain such provisions as the Committee, at its sole discretion, may deem necessary or desirable (the "*Grant Instrument*"). By accepting a Granted Security, a Participant thereby agrees that the Granted Security shall be subject to all the terms and provisions of this Plan and the applicable Grant Instrument. Unless otherwise determined by the Committee, no payment is required to be made by a Participant on acceptance of an Option. Unless otherwise determined by the Committee in the Grant Instrument, no payment is required to be made by the Participant upon acceptance of Restricted Shares or RSUs. The Grant Instrument shall also state the type of Granted Security granted thereunder (whether an Option, Restricted Share or RSU and whether a CGG, OIG, Unapproved 102 Grant or a 3(i) Grant).

- 7.3. *Cancelled Options and RSUs.* Where the Company cancels any Option or any RSU granted to a Participant but not exercised and issues new Granted Security to the same Participant, the issue of such new Granted Security may only be made within the limit of this Plan under Section 3.1.
- 7.4. *Returned Restricted Shares.* Where Restricted Shares are returned to the Company, new Granted Securities may be granted to the same Participant; provided, that the new issuance of the Granted Securities (following the return of the formerly issued Restricted Shares) is within the limits of this Plan under Section 3.1.

8. **Granted Securities**

8.1. **Options**

- 8.1.1. *Exercise Price.* The Committee shall determine the exercise price per Ordinary Share ("Option Exercise Price"), subject to applicable law, regulations and guidelines. Unless otherwise provided in the Grant Instrument, the Option Exercise Price shall be paid in NIS.

With respect to Cashless Options, the Option Exercise Price per share set forth in the Grant Instrument (as adjusted from time to time) will not represent the actual amount to be paid by the Participant to the Company for said Cashless Options, but will only be used for the purpose of calculating and determining the number of Ordinary Shares to be issued to the Participant as the result of the exercise of a Cashless Option pursuant to the Cashless Formula.

- 8.1.2. *Vesting Schedule.* The vesting schedule of Options will be determined by the Committee and the Board of Directors at their sole discretion and will be detailed in the Grant Instrument.

The vesting schedule shall commence on the Grant Date and, subject to Section 6 of the Plan, shall elapse upon satisfaction of the conditions set forth in the Grant Instrument. Such conditions may provide for vesting based on (i) length of continuous service, (ii) achievement of specific business targets, (iii) increases in specified indices, (iv) attainment of specified growth rates, or (v) other performance targets, as may be determined by the Committee at its sole discretion.

- 8.1.3. *Exercise Period.* The exercise period during which an option may be exercised will be determined by the Committee and will not exceed ten years from the Grant Date or such shorter period set forth in the Grant Instrument, unless shortened pursuant to the terms of this Plan. At the end of an *Exercise Period*, all Options granted which were not exercised will expire and be cancelled.

- 8.1.4. *Minimum Exercise.* No exercise of Options by a Participant, shall be for an aggregate exercise price of less than \$1,000 unless such exercise is for all shares of the Company purchasable upon exercise of the Options held by a Participant (or by the Trustee on his behalf) which have vested as of such date. The partial exercise of an Option shall not cause the expiration, termination or cancellation of the remaining unexercised portion of such Option.

- 8.1.5. *Method of Exercise.* An Option, or any part thereof, shall be exercised by (i) the Participant's signing and delivering to the Company at its principal office, to the attention of its Secretary (or to the Trustee, if the Option is held in trust), an exercise notice ("Notice of *Exercise*") in such form and substance as may be prescribed by the Committee from time to time, and (ii) full payment for the Ordinary Shares purchased upon the exercise of an Option. Payment shall be made on the date of delivery of the Notice of Exercise or on a later date, if so determined by the Committee, by the following means: (x) in cash, by certified check, bank cashier's check or wire transfer, or (y) subject to the approval of the Committee, by such other method of payment as the Committee may from time to time authorize.

- 8.1.6. *Cashless Exercise.* Notwithstanding the provisions of section 8.1.5, the Board of Directors of the Company may, at its discretion, resolve from time to time to allow Participants to exercise their vested Options during a fixed period either (x) in cash; or (y) 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 described in Section 3.2 or 8.1.1 above), in accordance with the Cashless Formula (“*Cashless Options*”).

During the period when Cashless Exercise is allowed, the Participant may exercise vested Cashless Options by signing and delivering to the Company at its principal office, to the attention of its Secretary (or to the Trustee, if the Option is held in trust), a Notice of Exercise in such form and substance as may be prescribed by the Committee and act in accordance with the provisions of Section 29.

The Committee or someone designated by it and/or the Trustee will make all applicable calculations with respect to the Option Exercise Price and determine the amount of Ordinary Shares issued or to be issued upon exercise of the vested Options, all in accordance with the Plan on the date on which the Notice of Exercise has been delivered (as specified in Section 8.1.5, and if such date is not a business day, the first business day following such date) (“*Notice Date*”) including the applicable exchange rate in effect on the Notice Date and such calculation will be binding on the Participants.

- 8.1.7. *Exercise Shares.* Except for any applicable provisions of the Tax Ordinance or relevant securities laws or the relevant stock exchange rules or specific provisions of this plan, the Ordinary Shares and any other securities issued to a Participant (or the Trustee on his behalf) *upon* Option exercise and payment of the Option Exercise Price shall be subject to the articles of association of the Company from time to time in force (including, without limitation, provisions relating to voting and dividend) and shall be free and clear of any transfer restrictions; pledges, encumbrances or liens; and other third party rights of any kind.

8.2. Restricted Shares

- 8.2.1 *Restricted Shares Legend on Shares.* Each Participant who is awarded Restricted Shares shall be issued the number of Ordinary Shares specified in the Grant Instrument for such Restricted Shares, and such Ordinary Shares shall be recorded in the Shareholder Registry of the Company and ownership of such Ordinary Shares shall be evidenced by a share certificate of the Company. Such Ordinary Shares shall be registered in the name of the Trustee and held for the benefit of the Participant and shall bear or be subject to an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Shares. The share certificates or other evidence of ownership of the Restricted Shares be held in custody by the Trustee until the restrictions thereon shall have lapsed. The Participant shall deliver to the Committee a share power or share powers, irrevocably endorsed to the Trustee, relating to the Restricted Shares. It is expected that as long as Restricted Shares are held by the Trustee, the Trustee shall not exercise the voting rights of the underlying Ordinary Shares unless requested to do so by the Company. In such event, the Trustee shall vote the underlying Ordinary shares proportionally as the Shareholders vote and if the vote of public shareholders is counted separately, proportionally to the public shareholders vote. Notwithstanding the foregoing, the Company reserves the right, upon recommendation of legal counsel, to request the Participant to exercise his or her voting rights.

8.2.2 *Restrictions and Conditions.* Restricted Shares shall be subject to the following restrictions and conditions:

- (i) Subject to the other provisions of this Plan and the terms of the Participant's Grant Instrument, during such period as may be determined by the Committee commencing on the Grant Date (the "*Restriction Period*"), the Participant shall not be permitted to sell, transfer, pledge or assign Restricted Shares.
- (ii) Except as provided in subparagraph (i) above and subject to the terms of this Plan and the Participant's Grant Instrument, the Participant shall have, with respect to his or her Restricted Shares, all of the rights of a shareholder of the Company, including the right to vote the Ordinary Shares (endorsed to the Trustee as long as the Restricted Shares are held by the Trustee), and the equity rights attached to the Restricted Shares (subject to the provisions of Section 3.2). Subject to the terms of a Participant's Grant Instrument, certificates or evidence of ownership of Ordinary Shares free of restriction under this Plan shall be delivered to the Participant after, and only after, (i) the Restriction Period for such Restricted Shares shall elapse without return of such Restricted Shares to the Company, or (ii) request by the Participant to the Trustee to do so together with evidence of tax payment with respect to the Restricted Shares. Certificates for the Ordinary Shares forfeited under the provisions of the Plan shall be promptly returned to the Company by the Trustee. Each Participant, by his or her acceptance of Restricted Shares, shall irrevocably grant to the Company a power of attorney to transfer and return any Ordinary Share so forfeited to the Company and agrees to execute any document requested by the Company in connection with such forfeiture and transfer.
- (iii) The Restriction Period of Restricted Shares shall commence on the Grant Date and, subject to Section 6 of the Plan, shall elapse upon satisfaction of the conditions set forth in the Grant Instrument; such conditions may provide for vesting based on (i) length of continuous service, (ii) achievement of specific business targets, (iii) increases in specified indices, (iv) attainment of specified growth rates, or (v) other performance targets, as may be determined by the Committee at its sole discretion.

8.3. Restricted Share Units ("RSUs")

8.3.1 *Exercise Price.* The Committee shall determine the exercise price per Ordinary Share ("*RSU Exercise Price*"), subject to applicable law, regulations and guidelines, but unless otherwise determined the RSU Exercise Price shall be zero.

8.3.2 *Vesting Schedule.* The vesting schedule of RSUs will be determined by the Committee and Board at their sole discretion and will be detailed in the Grant Instrument. RSUs may also vest upon satisfaction of performance criteria based on one or more Performance Factors as determined by the Committee and as set forth in the Grant Instrument governing such RSUs.

The vesting schedule shall commence on the Grant Date and, subject to Section 6 of the Plan, shall elapse upon satisfaction of the conditions set forth in the Grant Instrument; such conditions may provide for vesting based on (i) length of continuous service, (ii) achievement of specific business targets, (iii) increases in specified indices, (iv) attainment of specified growth rates, or (v) other performance targets, as may be determined by the Committee at its sole discretion.

8.3.3 *Exercise Period.* The exercise period during which an RSU may be exercised will be determined by the Committee (considering, if applicable, *inter alia*, the provisions of the Compensation Policy) and will not exceed ten years from the Grant Date or such shorter period set forth in the Grant Instrument, unless shortened pursuant to the terms of this Plan. At the end of an Exercise Period, all RSUs granted which were not exercised will expire and be cancelled.

- 8.3.4 *Method of Exercise.* An RSU, or any part thereof, shall be exercised by (i) the Participant's signing and delivering to the Company at its principal office, to the attention of its Secretary (or to the Trustee, if the RSU is held in trust), an exercise notice ("*Notice of Exercise*") in such form and substance as may be prescribed by the Committee from time to time, and (ii) full payment for the Ordinary Shares purchased upon the exercise of an RSU. Payment shall be made on the date of delivery of the Notice of Exercise or on a later date, if so determined by the Committee, by the following means: (x) in cash, by certified check, bank cashier's check or wire transfer, or (y) subject to the approval of the Committee, by such other method of payment as the Committee may from time to time authorize.
- 8.3.5 *Restriction on Transfer and Sale.* The Board may determine that the Shares covered by an RSU shall be restricted as to transferability and sale. If so restricted, such Shares shall not be sold, *transferred*, or disposed of in any manner, and such Shares shall not be pledged or otherwise hypothecated until the restriction expires by its terms. The circumstances under which any such restriction shall expire and any applicable sanction shall be determined by the Board.
- 8.3.6 *Shareholder Rights.* Unless otherwise specified in a Grant instrument, a Participant shall not be entitled to receive dividends, exercise voting rights, or exercise any other rights of a shareholder with respect to RSUs (except that the RSUs will be subject to the adjustment specified in Section 3.2 above) until the RSUs have vested and the Shares in question have been issued by the Company.
- 8.4. Notwithstanding any provisions of this Plan, the Participant may not exercise any Option and/or RSU allocated under this Plan on the record date of any one of the following events: (i) distribution of bonus shares; (ii) rights offering; (iii) distribution of dividend; (iv) consolidation of share capital; (v) split of share capital; (vi) reduction of capital (each of the above will be referred to below as a "**Company Event**"). In addition, in the event the ex-day (as defined in the TASE's regulations) of a Company Event precedes the record date of such Company Event, the Options and RSUs allocated under this Plan may not be exercised on such ex-day.
- 8.5. *Waiver of Grant Rights.* At any time prior to the expiration of any Option or RSU, or, the elapsing of the Restriction Period of any Restricted Share as applicable, a Participant may waive all rights attributable to such Granted Security by delivering a written notice to the Company's principal office, to the attention of its Secretary. Such notice shall be accompanied by the applicable Grant Instrument, shall specify the number of Ordinary Shares subject to or underlying the Granted Security with respect to which the Participant waives his rights and shall be signed by the Participant. Upon receipt by the Company of the notice of waiver with respect to any Granted Security, such Granted Securities shall expire or returned to the Company (as the case may be) with respect to the number of Ordinary Shares specified therein, and an amended Grant Instrument will be issued with respect to any Granted Security (or portion thereof) covered by the Grant Instrument as to which rights attributable thereto were not waived.
- 8.6. *Notices.* All notices delivered by a Participant hereunder shall be signed by the Participant and notarized or certified by an attorney, or signed in the presence of (and countersigned by) the Company's General Counsel or Corporate secretary. Any notice if sent by the Participant shall be irrevocable and shall not be effective until actually received by the Company.

9. **Termination of Employment or Service**

- 9.1. *Voluntary Termination by Participant.* In the event that a Participant's employment with or service to the Company or any Affiliate (as the case may be) is terminated by the Participant voluntarily for any reason other than Retirement, Disability or death: (i) Options or RSUs granted to such Participant, to the extent vested at the time of termination of employment or service, shall be exercisable for a period of 90 days following either termination or the date upon which the Participant may freely sell Ordinary Shares acquired upon Option or RSU exercise, the later date of the two; (ii) Restricted Shares granted to such Participant, to the extent earned at the time of termination of employment or service, shall be owned by the Participant following termination; and (iii) Granted Securities granted to such Participant, to the extent that they were not vested or earned at the time of termination of employment or service, shall expire at the time of termination (in the case of Options and RSUs) or returned to the Company (in the case of Restricted Shares).

- 9.2. *Termination by the Company or an Affiliate Other Than For Cause.* In the event that a Participant's employment with or service to the Company or any Affiliate (as the case may be) is terminated by the Company or such Affiliate for any reason other than for Cause: (i) Granted Securities granted to such Participant, to the extent vested or earned at the time of termination of employment or service, shall be exercisable for a period of one year following termination or the date upon which the Participant may freely sell Ordinary Shares acquired upon Option or RSU exercise, the later date of the two (in the case of Options and RSU) or be owned by Participant at the time of termination of employment (in the case of Restricted Shares), and (ii) Granted Securities granted to such Participant, to the extent that they were not vested or earned at the time of termination of employment or service, shall expire at such time (in the case of Options and RSUs) or returned to the Company (in the case of Restricted Shares). In the event that the Company decides to terminate the employment or service of a Participant prior to the end of his advanced notice period (if given) and/or his adjustment period (if given), then for the purposes of this plan and with regard to the vesting and earning schedule of the Participant's Granted Securities, the date of termination of employment or service shall remain the end of the advanced notice period and/or the adjustment period, whichever is relevant. Section 9.2 shall not apply upon occurrence of the events specified in Section 6, whereupon the provisions therein shall govern.
- 9.3. *Termination By Reason of Retirement, Death or Disability.* In the event that a Participant's employment with or service to the Company or any Affiliate (as the case may be) terminates by reason of the Retirement, Disability or death of the Participant: (i) Granted Securities granted to such Participant, to the extent vested or earned at the time of termination of employment or service, shall be exercisable during the remainder of their exercise period (in the case of Options or RSUs) or be owned by Participant at the time of termination of employment (in the case of Restricted Shares), and (ii) Granted Securities granted to such Participant, to the extent that they were not vested or earned at the time of termination of employment or service, shall expire at such time (in the case of Options and RSUs) or returned to the Company (in the case of Restricted Shares); provided, however, that a *pro rata* portion of the Granted Securities that would have become vested or earned on the next anniversary of the Commencement Date (but for such termination of employment or service) shall become vested or earned on the date of such termination of employment or service and shall be exercisable during the remainder of their Exercise Period (in the case of Options and RSUs) or owned by the Participant on the date of such (in the case of Restricted Shares). Such *pro rata* portion shall be determined by multiplying the number of unvested or unearned Granted Securities scheduled to vest on the next anniversary of the Commencement Date by a fraction, the numerator of which is the number of full and partial months which the Participant has been employed with or gave services to the Company or any Affiliate since the most recent anniversary of the Commencement Date (or, if less than one year has elapsed since the Commencement Date, since the Commencement Date) and the denominator of which is twelve, rounded down to the nearest whole number.
- 9.4. *Termination for Cause.* In the event a Participant's employment with or service to the Company or any Affiliate (as the case may be) is terminated for Cause, all outstanding Options and RSUs granted to such Participant (i.e., whether vested or not) shall expire upon the termination of employment or service and all Restricted Shares (i.e., whether earned or not) (unless any of the above was released for the Trustee to the Participant) shall be returned to the Company. A Participant shall be entitled to challenge the Committee's determination that a termination is for Cause, in which case, the final determination shall be made by a court of competent jurisdiction.
- 9.5. *Expiration of Term.* Notwithstanding anything to the contrary in this Section 9, no Option shall be exercisable after the expiration of its Exercise Period.
- 9.6. *Continuation of Employment or Service.* Notwithstanding anything to the contrary in this Plan, for the purpose of this Plan, employment by or service to the Company and any Affiliate shall be deemed continuous employment or service, and the move of a Participant as an employee or service provider between the Company and any Affiliate (or among the Affiliates) shall not be deemed termination of employment or service under this Plan.

10. **Trust Arrangement**

- 10.1. Notwithstanding anything to the contrary in this Plan, Approved 102 Grants which shall be granted under this Plan and any Ordinary Shares allocated or issued upon exercise or earning of such Approved 102 Grants and other rights, including without limitation underlying securities of a rights offering, bonus shares and dividends, shall be allocated or issued to the Trustee and held for the benefit of the Participants for such period of time as required by Section 102 or any regulations, rules or orders or procedures promulgated thereunder (the "*Holding Period*").
- 10.2. With respect to any Approved 102 Grant, subject to Section 102 and the Rules, Participants shall not be able to receive from the Trustee, nor shall they be able to sell or dispose of Ordinary Shares or any rights, including bonus shares, before the end of the applicable Holding Period. If a Participant sells or removes the Shares from the Trustee before the end of the applicable Holding Period ("*Breach*"), the Participant shall pay all applicable taxes imposed on such Breach by Section 7 of the Rules.
- 10.3. Until all taxes have been paid in accordance with Section 7 of the 102 Rules, Granted Securities and Ordinary Shares may neither be transferred to the Participant, nor be sold, transferred, assigned, pledged, encumbered, or otherwise willfully hypothecated or disposed of, and no power of attorney or deed of transfer, whether for immediate or future use may be validly given by the Participant. Notwithstanding the foregoing, the Granted Securities and Ordinary Shares may be validly transferred in a transfer made by will or laws of descent, provided that the transferee thereof shall be subject to the provisions of Section 102 and the Section 102 Rules as would have been applicable to the deceased Participant were he or she to have survived.
- 10.4. Upon receipt of Approved 102 Grant, the Participant will sign an undertaking to release the Trustee from any liability in respect of any action or decision duly taken and bona fide executed in relation with this Plan, or any Approved 102 Grant or Ordinary Share granted to him thereunder.
- 10.5. Notwithstanding anything to the contrary in this Plan, no later than seven days prior to the expiration of the Maximum Trust Period, the Participant shall either (i) instruct the Trustee to sell the Restricted Shares (or a sufficient amount thereof to cover the tax liability relating to the Restricted Shares) and transfer the consideration (minus tax paid) plus remaining Restricted Shares (if any) to the Participant, or (ii) provide the Trustee with evidence of payment of tax relating to the Restricted Shares and instruct the Trustee to transfer the Restricted Shares plus accumulated dividends (if any) and share certificates (if any) to the Participant. In the event that the Trustee does not receive any such notice from the Participant, the Trustee shall follow the process under clause (i) of this paragraph. The foregoing does not prevent the Participant from entering into a separate trust agreement with the Trustee, which will not bind the Company or affect it in any way.

11. **Rights as a Shareholder**

No Participant shall have any rights as a shareholder with respect to any Ordinary Shares or other securities of the Company covered by or relating to any Option or RSU, whether or not exercisable, until the due issuance of such shares by the Company. Ordinary Shares to be issued under the Plan will be subject to all provisions of the Articles of Association of the Company for the time being in force and, with respect to Restricted Shares, also subject to the terms and conditions of this Plan and the Grant Instrument, and will, subject to the completion of registration (as referenced below), rank *pari passu* in all respects with the then existing fully paid Ordinary Shares in issue on the date in which the Option or the RSU is duly exercised or, if that date falls on a day when the register of members of the Company is closed, the first day of re-opening of the register of members ("*Exercise Date*") (with respect to Options and RSUs) or the date of issuance of Restricted Shares (with respect to Restricted Shares) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date (or, subject to earning of the underlying Restricted Shares, the issuance date thereof) other than any dividend or other distribution previously declared or recommended or resolved to be paid if the record date therefor shall be before the Exercise Date (or issuance date, as the case may be). An Ordinary Share issued upon the exercise of an Option or an RSU shall not carry voting rights until the Participant has been duly entered in the register of members of the Company as the holder thereof. Notwithstanding the foregoing, a Participant awarded Restricted Shares shall (i) endorse the voting rights of the underlying Ordinary Shares to the Trustee, as set in Section 8.2.1 above; and (ii) receive dividends with respect to such shares (which shall be held in trust by the Trustee as long as the respective underlying Restricted Shares are held by the Trustee and subject to release of the underlying shares to the Participant).

12. **No Special Employment or Service Rights; No Right to Granted Securities**

Nothing contained in this Plan or any Grant Instrument shall confer upon any Participant any right with respect to the continuation of employment by or service to the Company or any Affiliate or interfere in any way with the right of the Company or any Affiliate, subject to the terms of any separate employment or service agreement, at any time to terminate such employment or service, or to increase or decrease the compensation of or payment to the Participant. The Plan shall not form part of any contract of employment. No person shall have any claim or right to receive any shares hereunder except in accordance with the express terms of this Plan and a Grant Instrument issued to such person.

13. **Tax Matters**

- 13.1. This Plan shall be governed by, and shall be conformed with and interpreted so as to comply with, the requirements of Section 3(i) or Section 102 of the Tax Ordinance (as the case may be) and any regulations, rules, orders, or procedures promulgated thereunder.
- 13.2. Any tax consequences arising from the grant or exercise of any Grant, from the payment for Ordinary Shares covered thereby or from any other event or act (of the Company, and/or its Affiliates, and the Trustee – if applicable - or the Participant), hereunder, shall be borne solely by the Participant. The Company and/or its Affiliates, and/or the Trustee shall withhold taxes according to the requirements under the applicable laws, rules, and regulations, including withholding taxes at source. Furthermore, the Participant shall agree to indemnify the Company and/or its Affiliates and/or the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Participant.
- 13.3. The Company and/or, when applicable, the Trustee shall not be required to release any share certificate to a Participant until all required payments have been fully made.
- 13.4. With respect to Unapproved 102 Grants, if the Participant ceases to be employed by the Company or any Affiliate, the Participant shall extend to the Company and/or its Affiliate a security or guarantee for the payment of tax due at the time of sale of Shares, all in accordance with the provisions of Section 102 and the rules, regulation or orders promulgated thereunder.

14. **Withholding Taxes**

Whenever cash is to be paid pursuant to a Grant, the Company shall have the right to deduct from such payment an amount sufficient to satisfy any applicable withholding tax requirements related thereto. Whenever Ordinary Shares or any other non-cash assets are to be delivered pursuant to a Grant, the Company shall have the right to require the Participant to remit to the Company in cash an amount sufficient to satisfy any applicable withholding tax requirements related thereto, and if such amount of cash is not timely remitted, to withhold such Ordinary Shares or any other non-cash assets pending payment by the Participant of such amounts.

15. **Transfers upon Death; Non-Assignability; Market Stand-Off; Non-Public Information**

- 15.1. *Death.* Upon the death of a Participant, outstanding Options and RSUs granted to such Participant may be exercised and Restricted Shares may be taken only by a person who shall have acquired the right to the Granted Securities by will or by the laws of descent and distribution. No transfer of a Granted Security by will or by the laws of descent and distribution shall be effective to bind the Company, unless the Company shall have been furnished with: (a) written notice thereof and with a copy of the relevant section of the will relating to the bequest of the Granted Security, certified by a notary and/or such other evidence as the Committee may deem necessary to establish the validity of the transfer and (b) a written consent by the transferee to pay the Option or RSU Exercise Price upon exercise of the Option or the RSU, if any, and otherwise abide by the terms set forth in this Plan and in the relevant Grant Instrument.

15.2. Non-Assignability.

15.2.1. Notwithstanding any other provision of the Plan, no Granted Security or any right with respect thereto, purchasable hereunder, whether fully paid or not, shall be assignable, transferable or given as collateral or any right with respect to them given to any third party whatsoever, and during the lifetime of the Participant each and all of such Participant's rights to purchase Ordinary Shares hereunder shall be exercisable or taken only by the Participant. Any such action made directly or indirectly, for an immediate validation or for a future one, shall be void and shall entitle the Company to cancel any Granted Security granted to such Participant to the extent not already exercised or earned (as the case may be).

15.2.2. As long as Options, RSUs or Ordinary Shares purchased pursuant thereto or Restricted Shares are held by the Trustee on behalf of the Participant, all rights of the Participant over the shares are personal, cannot be transferred, assigned, pledged or mortgaged, other than by will or laws of descent and distribution.

15.3. Market Stand-Off; Non-Public Information.

In connection with any underwritten public offering by the Company of its equity securities pursuant to an effective registration statement filed under any applicable law in any jurisdiction, the Participant shall not directly or indirectly sell, make any short sale of, loan, hypothecate, pledge, offer, grant or sell any Granted Securities or other contract for the purchase of, purchase any or other contract for the sale of, or otherwise dispose of or transfer, or agree to engage in any of the foregoing transactions with respect to, any Ordinary Shares acquired under this Plan without the prior written consent of the Company or its underwriters. Such restriction (the "**Market Stand-Off**") shall be in effect for such period of time following the date of the final prospectus for the offering as may be requested by the Company or such underwriters. In the event of the declaration of a stock dividend, a spin-off, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company's outstanding securities without receipt of consideration, any new, substituted or additional securities which are by reason of such transaction distributed with respect to any Granted Securities and/or Ordinary Shares acquired under this Plan shall immediately be subject to the Market Stand-Off. In order to enforce the Market Stand-Off, the Company may impose stop-transfer instructions with respect to the Ordinary Shares acquired under this Plan until the end of the applicable stand-off period. The Company's underwriters shall be beneficiaries of the agreement set forth in this Subsection. Furthermore, the Participant's right to sell Ordinary Shares is subject to Applicable Laws, including in connection with limitation relating to the use of non-public information, if and when applicable.

16. Expenses and Receipts

The expenses incurred in connection with the administration and implementation of the Plan (excluding any taxes and other liabilities to which the Participant is subject as a result of his or her participation in the Plan) shall be paid by the Company. Any proceeds received by the Company in connection with the exercise or earning of any Granted Security may be used for general corporate purposes.

17. **Term and Termination**

- 17.1. *Term of Plan.* Granted Securities may be granted at any time after (i) the Effective Date (ii) (for CGG or OIG Options) the Trustee has been approved by the Israeli Income Tax Authorities pursuant to the requirements of the Tax Ordinance, and (iii) any other approvals or consents required by law have been received, until the Termination Date after which period no further Granted Securities may be issued but the provisions of the Plan shall remain in full force and effect to the extent necessary to give effect to the exercise of any Option or RSU granted or exercised prior thereto, to the earning of any Restricted Share granted prior thereto or otherwise as may be required in accordance with the provisions of the Plan.
- 17.2. The Board of Directors of the Company may, at any time and from time to time, terminate the Plan in any respect, subject to any applicable approvals or consents that may be otherwise required by law, regulation or agreement, including by reason of their applicability to its shareholders or otherwise, and provided that no termination of the Plan shall adversely affect the terms of any Granted Security which has already been granted. Upon such termination, no further Granted Securities will be offered under the Plan, but in all other respects the provisions of the Plan shall remain in force to the extent necessary to give effect to the exercise or earnings of any Granted Security (to the extent not already exercised or earned) granted prior thereto or otherwise as may be required in accordance with provisions of the Plan and Granted Securities (to the extent not already exercised or earned) granted prior to such termination shall continue to be valid and exercisable or earnable in accordance with the Plan.

18. **Amendment of the Plan**

- 18.1. Subject to other sections of the Plan, applicable law and the rules and regulations of any stock exchange applicable from time to time to the Company, by reason of their applicability to its shareholders or otherwise, the Plan may be altered or amended in any respect by a resolution of the Board of Directors of the Company.
- 18.2. The terms of the Plan and/or any Granted Security amended pursuant to this section 18 must comply with the applicable rules and/or regulations of any stock exchange applicable from time to time to the Company, by reason of their applicability to its shareholders or otherwise.

19. **Failure to Comply**

In addition to the remedies of the Company elsewhere provided for herein, failure by a Participant to comply with any of the terms and conditions of the Plan or the applicable Grant Instrument shall be grounds for the cancellation and forfeiture of such Option or RSUs or the return to the Company of such unearned Restricted Share, in whole or in part, as the Committee, at its absolute discretion, may determine, provided however, that such failure is not remedied by such Participant within ten days after notice by the Company of such failure.

20. **Required Approvals and Restrictions under the Company's Licenses**

- 20.1. The Plan is subject to the receipt, and the terms, of all approvals and permits required under any applicable law or by regulatory authorities having jurisdiction over the Plan the Granted Securities, or the Ordinary Shares issued upon exercise of Options or RSUs or as Restricted Shares, including by reason of their applicability to the Company's shareholders or otherwise.
- Notwithstanding anything to the contrary in this Plan, if any of the approvals or permits required for the Grant of the Granted Securities or for their exercise or receipt, will not be obtained for any reason, the Participant will not be entitled to exercise or receive said Granted Securities. In addition, the Company (including its office holders, controlling shareholders or related third parties on their behalf) will not be liable towards the Participant and the Participant will not have any claim or allegation for not obtaining said approvals and permits.
- 20.2. According to licenses granted to the Company for the provision of telecommunications services, a breach thereunder may occur in the event that the holdings of Company's controlling shareholder or the Israeli entities (as defined in said licenses) are lower than the required minimum holdings set in said licenses. Therefore, issuance of Ordinary Shares upon exercise of Options or RSU granted on or after June 18, 2014, may be delayed by the Company until the aforementioned prohibition under said licenses becomes irrelevant.

21. **Automatic Extension of Exercise Period**

In the event the Exercise Period ends during a period which was determined by the Company as a lock up period, among other things, because of the existence or potential existence of inside information or the determination of a Market Stand-Off (the "*Blackout Period*"), then subject to the satisfaction of all other terms of this Plan, the Exercise Period shall be automatically extended, without the need to receive additional decisions of the Committee or the Board of Directors, by such number of days included in the Blackout Period.

22. **Cash Compensation in lieu of Equity Compensation**

Notwithstanding any provision of this Plan, in the event the Company is unable at any time (i) to issue Shares resulting from the exercise of any Option or RSU; or (ii) to release any Restricted Share from the Trustee to a Participant, all due to the need to receive any approval or permit required under any applicable law or by any regulatory authority or due to a breach of any approval or permit required by the Company (including a breach of the Company's licenses for the provision of telecommunications services), the Committee and Board of Directors may decide, at their sole discretion, to pay the Participant the financial benefit embedded in his equity compensation in cash (in lieu of exercising the Options or RSUs or release of Restricted Shares to a Participant) pursuant to a calculation decided upon in good faith by the Committee and Board of Directors to reflect the benefit to the Participant granted to him as equity compensation.

23. **Applicable Law**

The Plan and all instruments issued thereunder or in connection therewith, shall be governed by, and construed and administered in accordance with the laws of the State of Israel.

24. **No Rights against the Company or an Affiliate**

This Plan shall not confer on any person any legal or equitable rights (other than those constituting the Granted Securities themselves) against the Company or any Affiliate directly or indirectly or give rise to any cause of action at law or in equity against the Company or any Affiliate.

25. **Treatment of Participants**

There is no obligation for uniformity of treatment of Participants.

26. **Unfunded Status of Awards**

The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant pursuant to a Granted Security, nothing contained in the Plan or any Grant Instrument shall give any such Participant any rights that are greater than those of a general unsecured creditor of the Company.

27. **No Fractional Shares**

Notwithstanding any provision of this Plan, no fractional shares shall be issued or delivered upon exercise of an Option or an RSU or granted as a Restricted Share and the number of Ordinary Shares granted or issued under this Plan to any Participant shall be rounded down to the nearest whole number.

28. **Integration of Section 102 and Tax Assessing Officer's Permit**

- 28.1. With regards to Approved 102 Grants, the provisions of the Plan and/or the Grant Instrument shall be subject to the provisions of Section 102 and the Tax Assessing Officer's permit, and the said provisions and permit shall be deemed an integral part of the Plan and of the Grant Instrument.
- 28.2. Any provision of Section 102 and/or the said permit which is necessary in order to receive and/or to keep any tax benefit pursuant to Section 102, which is not expressly specified in the Plan or the Grant Instrument, shall be considered binding upon the Company and the Participants.

29. **Issuance of Ordinary Shares for no Consideration**

To the extent the Company is required to issue Ordinary Shares under this Plan (whether as a direct issuance or as a result of exercise of Options or RSUs) for no consideration, the Company at its sole and absolute discretion (by way of a resolution of the Committee) may obligate the Participant to pay the nominal value of the Ordinary Shares issued and in such event the Ordinary Shares will not be issued (and the Options and RSUs will not be exercised) prior to the payment of such nominal value.

30. **Confidentiality**

The Participant shall not divulge the details of the Plan and/or his holdings to any person except with the prior written permission of the Company, unless so required to do under any statutes or regulations applicable to such Participant.

LIST OF AMENDMENTS

Adoption – July 12, 2004

1st Amendment - Board of Directors' approval: March 26, 2008; Shareholders' approval: June 25, 2008

2nd Amendment: Board of Directors' approval: February 23, 2009; Shareholders' approval: April 22, 2009

3rd Amendment - Board of Directors' approval: effective as of April 14, 2011

4th Amendment - Board of Directors' approval: March 21, 2012; Shareholders' approval: May 8, 2012

5th Amendment - Board of Directors' approval: effective as of June 18, 2014

6th Amendment – Board of Directors' approval: effective as of March 13, 2016