PARTNER COMMUNICATIONS CO LTD
Form 6-K
June 20, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

Report on Form 6-K dated

June 20, 2013

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

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

(Address of Principal Executive Offices)

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

Form 20-F x Form 40-F o

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

Yes o No x

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

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

Enclosure: Materials for the Annual General Meeting of Shareholders.

Rosh Ha'ayin, Israel
June 20, 2013

PARTNER COMMUNICATIONS COMPANY LTD.

NOTICE OF

ANNUAL GENERAL MEETING OF SHAREHOLDERS

Notice is hereby given that a general meeting of shareholders constituting an Annual General Meeting (the "AGM") of Partner Communications Company Ltd. (the "Company", "Partner" or "we") will be held on Thursday July 25, 2013 at 10:00 a.m. (Israel time), at our offices, 8 Ha'amal Street, Rosh Ha'ayin, Israel or at any adjournment thereof.

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

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

(2) to discuss the auditor's remuneration for the year ended December 31, 2012, as determined by the Audit Committee and by the Board of Directors, and the report of the Board of Directors with respect to the remuneration paid to the auditor and its affiliates for the year ended December 31, 2012;

(3) to discuss the Company's audited financial statements for the year ended December 31, 2012 and the report of the Board of Directors for such period;

(4) to re-elect the following directors to the Company's Board of Directors until the close of the next annual general meeting: Mr. Shlomo Rodav, Mr. Ilan Ben-Dov, Mr. Adam Chesnoff, Mr. Fred Gluckman, Mr. Sumeet Jaisinghani, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr. Yahel Shachar, Mr. Elon Shalev and Mr. Arie (Arik) Steinberg (collectively, the "Directors"); to approve that no change will be made to the compensation terms of the Directors (not including Mr. Shlomo Rodav) and of Ms. Osnat Ronen; to approve that the Directors and Ms. Osnat Ronen will continue to benefit from the Company's D&O insurance policy; and to approve and ratify (subject to the adoption of Resolution 7 below) indemnification of the Directors (not including Mr. Arie (Arik) Steinberg).

(5) to approve a compensation policy for the Company's office holders;

(6) to approve a registration rights agreement between the Company and S.B. Israel Telecom Ltd.; and

(7) to approve and ratify the grant of Indemnification Letters to the following directors: (i) Mr. Shlomo Rodav, (ii) Mr. Ilan Ben-Dov, (iii) Mr. Adam Chesnoff, (iv) Mr. Fred Gluckman, (v) Mr. Sumeet Jaisinghani, (vi) Mr. Yoav Rubinstein, (vii) Mr. Arieh Saban, (viii) Mr. Yahel Shachar, and (ix) Mr. Elon Shalev.

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

The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of any of items no. 4(ii), 4(iv), 5, 6 and 7(i)-7(ix) on the agenda; provided, that one of the following conditions is fulfilled: (i) the majority of votes in favor of the matter shall include at least a majority of the votes of shareholders not constituting Controlling Parties (as stated in the Israeli Companies Law (1999), as amended (the "Israeli Companies Law"), "Controlling Parties") in the Company, or those having a Personal Interest (as defined in the Israeli Companies Law, a "Personal Interest") in the approval of the pertinent item, participating in the vote; which votes shall not include abstaining votes; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the Company.

Only shareholders of record at the close of business on June 26, 2013 (the "Record Date") will be entitled to participate in and vote at the AGM, subject to the restrictions in the Company's Articles of Association, as set forth in the attached Proxy Statement. All shareholders are cordially invited to attend the AGM in person.

The Israeli Companies Regulations (Deeds of Vote and Position Notices) (2005) state that shareholders who will not attend the AGM in person may vote with respect to items no. 4-7 on the agenda by completing the second part of the Hebrew form of the Deed of Vote (ktav hatzba'a). For the shareholders' convenience, items no. 1-3 on the agenda are also included in the Deed of Vote (although said items are not subject to the provisions of such regulations), and an English convenience translation of the Deed of Vote is included. Under such regulations, the shareholders may also submit a position notice (hodaat emda) to the Company's office (envelope marked clearly as "position notice", to the Company Secretary, at the address stated above) in respect of items no. 4-7 on the agenda, no later than ten (10) days following the Record Date (July 6, 2013). The deadline for submission of the Board of Directors' response to such position notices is July 13, 2013. The Hebrew form of the Deed of Vote and position notices (if any) are available on the websites: www.magna.isa.gov.il or www.maya.tase.co.il; and an English convenience translation of the documents is available on Form 6-K at the U.S. Securities and Exchange Commission's EDGAR System http://www.sec.gov/edgar.shtml.

Shareholders who will not attend the AGM in person are requested to complete, date and sign the aforementioned form of Deed of Vote (either the Hebrew or the English version) distributed herewith and to return it promptly (and in any event at least seventy two (72) hours prior to the time of the AGM) to the Company at its address above.

The Company's Articles of Association also allow shareholders registered in the Company's Shareholders Register to appoint a proxy to vote in their stead (whether personally or by means of a Deed of Vote) at the AGM, by means of a Deed of Authorization in the form attached to this Proxy Statement, so long as the Deed of Authorization is delivered to the Company at least seventy two (72) hours prior to the time of the AGM. Shareholders may revoke their Deeds of Authorization by written notice received at the offices of the Company prior to the commencement of the AGM, and vote their shares in person.

Two or more shareholders holding Ordinary Shares conferring in the aggregate at least one-third of our voting rights, present in person or by proxy at the AGM, or who have delivered to us a Deed of Vote, will constitute a lawful quorum at the AGM. Should no lawful quorum be present one half hour following the time set for the AGM, the AGM shall be adjourned to Thursday August 1, 2013, at the same time and place.

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

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

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

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

By Order of the Board of Directors

ROLY KLINGER, ADV.

Company Secretary

PARTNER COMMUNICATIONS COMPANY LTD.

8 Ha'amal Street

Rosh Ha'ayin 48103, Israel

PROXY STATEMENT

This Proxy Statement is furnished to the holders of Ordinary Shares, par value NIS 0.01 per share (the "Ordinary Shares"), including holders of American Depositary Shares (each representing one Ordinary Share, the "ADSs") of Partner Communications Company Ltd. (the "Company", "Partner" or "we") in connection with the solicitation by the Board of Directors of proxies for use at a general meeting of shareholders constituting an Annual General Meeting (the "AGM"), to be held on Thursday July 25, 2013 commencing at 10:00 a.m. (Israel time), at our offices, 8 Ha'amal Street, Rosh Ha'ayin, Israel, or at any adjournment thereof.

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

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

(2) to discuss the auditor's remuneration for the year ended December 31, 2012, as determined by the Audit Committee and by the Board of Directors, and the report of the Board of Directors with respect to the remuneration paid to the auditor and its affiliates for the year ended December 31, 2012;

(3) to discuss the Company's audited financial statements for the year ended December 31, 2012 and the report of the Board of Directors for such period;

(4) to re-elect the following directors to the Company's Board of Directors until the close of the next annual general meeting: Mr. Shlomo Rodav, Mr. Ilan Ben-Dov, Mr. Adam Chesnoff, Mr. Fred Gluckman, Mr. Sumeet Jaisinghani, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr. Yahel Shachar, Mr. Elon Shalev and Mr. Arie (Arik) Steinberg (collectively, the "Directors"); to approve that no change will be made to the compensation terms of the Directors (not including Mr. Shlomo Rodav) and of Ms. Osnat Ronen; to approve that the Directors and Ms. Osnat Ronen will continue to benefit from the Company's D&O insurance policy; and to approve and ratify (subject to the adoption of Resolution 7 below) indemnification of the Directors (not including Mr. Arie (Arik) Steinberg).

(5) to approve a compensation policy for the Company's office holders;

(6) to approve a registration rights agreement between the Company and S.B. Israel Telecom Ltd.; and

(7) to approve and ratify the grant of Indemnification Letters to the following directors: (i) Mr. Shlomo Rodav, (ii) Mr. Ilan Ben-Dov, (iii) Mr. Adam Chesnoff, (iv) Mr. Fred Gluckman, (v) Mr. Sumeet Jaisinghani, (vi) Mr. Yoav Rubinstein, (vii) Mr. Arieh Saban, (viii) Mr. Yahel Shachar, and (ix) Mr. Elon Shalev.

A form of a Deed of Vote (Hebrew and English versions) for use at the AGM (either the Hebrew or the English version) is distributed herewith. With respect to Items no. 4-7 on the agenda, the Deed of Vote shall also be deemed as a Deed of Vote (Ktav Hatzba'a) under the Israeli Companies Law (1999), as amended (the "Israeli Companies Law") and Israeli Companies Regulations (Deeds of Vote and Position Notices) (2005). Shareholders may withdraw their Deed of Vote by contacting the Company at its address above and duly proving their identity, at least 24 hours prior to the AGM and vote their shares in person. Ordinary Shares represented by any Deed of Vote in the Hebrew or the English version distributed herewith, if properly executed and delivered to the Company at the address above at least seventy two (72) hours prior to the time of the AGM, will be voted as indicated on the form.

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

Proxies for use at the AGM are being solicited by the Board of Directors of the Company. Only shareholders of record at the close of business on June 26, 2013, will be entitled to participate in and vote at the AGM. Proxies are being distributed to shareholders on or about June 20, 2013; however, certain of our officer holders, directors, employees and agents, none of whom will receive additional compensation therefor, may solicit proxies by telephone, e-mail or other personal contact. Partner will bear the cost of the solicitation of the proxies by the Board of Directors, including postage, printing and handling, and will reimburse the reasonable expenses of brokerage firms and others for forwarding material to beneficial owners of Ordinary Shares.

On June 19, 2013, the Company had outstanding 155,652,529 Ordinary Shares, excluding 4,467,990 treasury shares. The holder of each Ordinary Share is entitled to one vote upon each of the matters to be presented at the AGM.

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

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

ITEMS 1 AND 2

RE-APPOINTMENT OF AUDITOR AND DISCUSSION OF ITS REMUNERATION

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

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

The Audit Committee and the Board of Directors have determined that the remuneration of Kesselman & Kesselman, the Company's auditor, for the year ended December 31, 2012, and its affiliates will be NIS 2,905 thousand for audit fees (including SOX audit), NIS 340 thousand for audit-related fees, and NIS 355 thousand for tax fees. Partner has agreed to indemnify Kesselman & Kesselman, and their personnel from any and all third party claims, liabilities, costs and expenses, including reasonable attorney's fees, arising from or relating to services rendered under the Tax Services engagement letter for the year 2012, except to the extent finally determined to have resulted from the gross negligence, willful misconduct or fraudulent behavior of Kesselman & Kesselman relating to such services.

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

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

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

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

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

2. "The remuneration of the auditor and its affiliates for the year 2012 as determined by the Audit Committee and by the Board of Directors and the report by the Board of Directors of the remuneration of the auditor and its affiliates for the same period are hereby noted."

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

ITEM 3

DISCUSSION OF THE COMPANY’S AUDITED FINANCIAL STATEMENTS

The Audit Committee has approved (pursuant to the Nasdaq Corporate Governance Rules) and recommended, and the Board of Directors has approved (pursuant to the Israeli Companies Law), the audited financial statements of the Company for the year ended December 31, 2012, attached hereto as Annex “A”. Under the Israeli Companies Law and the Company’s Articles of Association, shareholders’ discussion is required for both the financial statements and the related report of the Board of Directors, which is attached hereto as Annex “B”. A representative of the Company’s auditor, Kesselman & Kesselman, is expected to be present at the AGM, and will be available to respond to appropriate questions of shareholders.

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

“The audited financial statements of the Company for the year ended December 31, 2012 and the report of the Board of Directors for such period are hereby noted.”

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

ITEM 4

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

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

In accordance with Section 22.3A of the Company’s General License for the Provision of Mobile Radio Telephone Services using the Cellular Method in Israel dated April 7, 1998, as amended (the “License”), and with Article 23.2.6 of the Company’s Articles of Association, notwithstanding any other provision of the Articles of Association, a Qualified Israeli Director (as defined in the Articles of Association) shall be appointed as a member of the Board of Directors, and may be removed from such office, only upon written notice to the Company Secretary of his or her appointment or removal by Founding Israeli Shareholders holding Minimum Israeli Holding Shares (as both terms are defined in the Articles of Association) (the “Founding Israeli Shareholders”). The Founding Israeli Shareholders have appointed Ms. Osnat Ronen as a Qualified Israeli Director on or prior to December 8, 2009. Ms. Ronen has been a director in the Company since December 2009 and is currently a member of the Security Committee. Ms. Ronen served as a General Partner of Viola Private Equity from January 2008 until March 2013. From 2001 until 2007, Ms. Ronen was the Deputy Chief Executive Officer of Leumi Partners Ltd., the investment banking services arm of the Leumi Group, where she was responsible for the Group’s Private Equity portfolio. Between 2004 and 2007, Ms. Ronen 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. Prior to these positions, Ms. Ronen served as Deputy Head of the Subsidiaries Division of The Leumi Group from 1999 until 2001. Ms. Ronen served on the Boards of Directors of the following companies: the Paz Group, Direct-I.D.I. Insurance Company Ltd., Leumi Card Ltd., Arab Israeli Bank, Leumi Mortgage Bank and more.

Currently Ms. Ronen serves as a director on the Board of Directors of the following companies: Orad Hi-tech Ltd., Amiad Filtration Systems Ltd., Aeronautics Ltd., Degania Medical Ltd., Matomy Media Group Ltd. and Fox-Wizel Ltd. Ms. Ronen holds a B.Sc. degree in mathematics and computer science and an M.B.A. degree, both from Tel Aviv University. To the best knowledge of the Company and the Company's Directors, Ms. Ronen is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law (1968) (the "Israeli Securities Law") in the Company. No further notice of appointment or removal of a Qualified Israeli Director was received by the Company from the Founding Israeli Shareholders. Ms. Ronen's re-appointment is not brought to the shareholders approval at the AGM and she continues to be a Qualified Israeli Director, until a contrary notice is duly received by the Company from the Founding Israeli Shareholders pursuant to the Company's Articles of Association (unless her office becomes vacant earlier in accordance with the provisions of the Israeli Companies Law and the Company's Articles of Association).

Under the Company's Articles of Association, the Board of Directors has the right to elect any person as a director and to fill an office which becomes vacant. Any director elected in such manner shall serve in office until the close of the coming annual general meeting and may be re-elected. Accordingly, following the completion of the change of control transaction on January 29, 2013 between S.B. Israel Telecom Ltd. ("S.B.") and Scailex Corporation Ltd. ("Scailex") in accordance with the Share Purchase Agreement entered into on November 30, 2012 between Scailex and S.B. (the "Share Purchase Agreement"), the Board of Directors has elected Mr. Shlomo Rodav, Mr. Adam Chesnoff, Mr. Fred Gluckman, Mr. Sumeet Jaisinghani, Mr. Yoav Rubinstein, Mr. Arieh Saban and Mr. Elon Shalev, as of January 29, 2013, as directors of the Company (the "New Directors"). The service of the New Directors was recommended by S.B. As reported in 2012 by Scailex, S.B. and Scailex (and their respective affiliates) are generally voting in a unified manner (according to a majority vote among them). Additionally, subject to the provisions of any law, S.B. and Scailex agreed to take all action, including their voting power in the shareholders meetings of Partner, to ensure that the composition of Partner's Board of Directors will generally be: a majority of candidates recommended by S.B. and two candidates recommended by Scailex (as long as the cumulative holdings of Scailex and its related parties in Partner is equal to 10% or more of Partner's share capital, or one candidate if such holdings are less than 10% but equal to or greater than 5%, or no candidate if such holdings are less than 5%).

All the directors listed below will terminate their office as directors of the Company as of the end of the AGM. It is proposed to re-elect these directors until the close of the next annual general meeting, unless their office becomes vacant earlier in accordance with the provisions of the Israeli Companies Law and the Company's Articles of Association. No change is hereby made to the service of Ms. Osnat Ronen as a Qualified Israeli Director, to the service of Mr. Barry Ben Zeev (Woolfson) as an external director (Dahatz) of the Company and to the service of Dr. Michael Anghel as an external director (Dahatz) of the Company.

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

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

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

It should be noted that the proposed Compensation plan for the Company's directors is in accordance with the proposed Company's Compensation Policy for office holders as described in item 5 below and in line with Amendment No. 20 to the Israeli Companies Law.

The Compensation Committee and Board of Directors have noted the respective personal interests of the Directors and of Ms. Osnat Ronen.

The Compensation Committee and Board of Directors have resolved and recommended to the shareholders at the AGM, (a) to approve that no change will be made to the compensation of Mr. Ilan Ben-Dov, Mr. Adam Chesnoff, Mr. Fred Gluckman, Mr. Sumeet Jaisinghani, Ms. Osnat Ronen, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr. Yahel Shachar, Mr. Elon Shalev and Mr. Arie (Arik) Steinberg, commencing from the close of the AGM, for their respective services to the Company as directors, which is equal to: (i) an annual fee of NIS 180,000 (one hundred and eighty thousand NIS); and (ii) an attendance fee of NIS 4,000 (four thousand NIS) per meeting, applicable from the fifth meeting per year (100% thereof for participation in person, 60% thereof by means of communication, or 50% thereof in writing), in each such case, linked to the Israeli Consumer Price Index published for December 2007, but in any event no less than an aggregate amount per annum equal to U.S. $50,000 (U.S. Dollars fifty thousand, payable according to the representative exchange rate on the payment date) as previously approved by the shareholders, (the “Compensation”); (b) to approve that no change will be made to the reimbursement of reasonable expenses in connection with the performance of their role as directors of Mr. Ilan Ben-Dov, Mr. Adam Chesnoff, Mr. Fred Gluckman, Mr. Sumeet Jaisinghani, Ms. Osnat Ronen, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr. Yahel Shachar, Mr. Elon Shalev and Mr. Arie (Arik) Steinberg; and (c) to approve that as previously approved by the shareholders, the Directors and Ms. Osnat Ronen will continue to benefit from the Company's D&O insurance policy

The Compensation Committee and Board of Directors have approved and ratified, and recommended to the shareholders at the AGM, to approve and ratify, subject to the adoption of the pertinent part of Resolution 7 below, that each of the following directors: Mr. Shlomo Rodav, Mr. Ilan Ben-Dov, Mr. Adam Chesnoff, Mr. Fred Gluckman, Mr. Sumeet Jaisinghani, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr. Yahel Shachar and Mr. Elon Shalev will be granted an indemnification letter. In addition, the Compensation Committee and Board of Directors have approved, and recommended to the shareholders at the AGM, to approve that the indemnification letters granted to Ms. Osnat Ronen and Mr. Arie (Arik) Steinberg will continue in full force and effect.

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

Name	Position
Mr. Shlomo Rodav	Director and Chairman of the Board of Directors
Mr. Ilan Ben-Dov	Director
Mr. Adam Chesnoff	Director
Mr. Fred Gluckman	Director
Mr. Sumeet Jaisinghani	Director
Mr. Yoav Rubinstein	Director
Mr. Arieh Saban	Director
Mr. Yahel Shachar	Director
Mr. Elon Shalev	Director
Mr. Arie Steinberg	Director

Mr. Shlomo Rodav was appointed to the Board of Directors of Partner effective as of January 29, 2013, following which he was appointed as Chairman of the Board of Directors and is currently a member of the Security Committee. Mr. Rodav has served since 1990 and until 2007 as Chairman of the Board of Directors and as of 2007 as a director of Kerur Holdings Ltd., Jafora-Tabori Ltd., Tapugan Industries Ltd. (in Tapugan until 2011) and Israel Lighterage & Supply Co. Ltd. and as a director on the Board of Directors of Metzad Ateret Ltd. From 1994 until 2011 Mr. Rodav served as a director and CEO of Waste Management Israel Ltd. and from 2000 until 2003 as a director and CEO of InirU Israel Ltd. and InirU Wireless Inc. From 2003 to 2005, Mr. Rodav served as Chairman of the Board of Directors and CEO (CEO during 2004-2005) of Gilat Satellite Networks Ltd. Between 2007 and 2011, he served as Chairman of the Board of Directors of Bezeq Israel Telecommunication Company Ltd., Pelephone Communications Ltd., Bezeq International Company Ltd., Bezeq Online Ltd., DBS Satellite Services (1998) Ltd. (yes), and Walla Ltd. and between 2011 and 2012 as Chairman of the Board of Directors of Tnuva Ltd., and its subsidiaries. Mr. Rodav holds a B.A. in Economics from Tel-Aviv University and an M.B.A. degree from Columbia University. To the best knowledge of the Company and the Company's Directors, Mr. Rodav is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. Ilan Ben-Dov was appointed to the Board of Directors of Partner in October 2009 and served as Chairman of the Board of Directors of the Company since November 1, 2009 until January 29, 2013. Mr. Ben-Dov serves as Chairman of the Board of Directors of Scailex Corporation Ltd. and Suny Electronics Ltd. and previously had served as Suny's Joint Chief Executive Officer for approximately fifteen years (until May 2009). He also currently serves as a director of Tapuz Anashim Ltd., Derech HaLotus Ltd., Refuat Halotus Ltd., Tao Tsuot Real Estate Ltd., Ben-Dov Investments Ltd., I. Ben-Dov Investments Ltd., Harmony (Ben-Dov) Ltd., and of subsidiaries of Suny. Mr. Ben-Dov served as Chairman of the Board of Directors of Tao Tsuot Ltd. To the best knowledge of the Company and the Company's Directors, Mr. Ben-Dov is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. Adam Chesnoff was appointed to the Board of Directors of Partner effective as of January 29, 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; a member of the Board of Commissioners of MNC Ltd., an Indonesian media company; and of MNC Sky Vision Ltd., Indonesia’s largest pay television operator. In addition, Mr. Chesnoff served as Vice-Chairman of the Board of Directors of ProSiebenSat.1 Media AG from 2003 until 2007. From 2005 to 2010, Mr. Chesnoff served on the Board of Directors of Bezeq Israel Telecommunication Company Ltd. Mr. Chesnoff holds a B.A. in Economics and Management from Tel-Aviv University and an M.B.A from UCLA’s Anderson School of Business. To the best knowledge of the Company and the Company's Directors, Mr. Chesnoff is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. 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 of Saban Capital Group, Inc. In this position, Mr. Gluckman is responsible for all financial, accounting and tax 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 Saban Capital Group 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. Mr. Gluckman is a CPA and holds a BS in Economics from Wharton Business School and studied at the Hebrew University in Jerusalem. To the best knowledge of the Company and the Company's Directors, Mr. Gluckman is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. Sumeet Jaisinghani was appointed to the Board of Directors of Partner effective as of January 29, 2013. Mr. Jaisinghani is a Director at Saban Capital Group, Inc. (“SCG”), is responsible for its principal investment activities in Asia and is head of its Singapore office. In addition to being on the Board of Directors of Partner, Mr. Jaisinghani is a member of the Board of Directors of Celestial Tiger Entertainment (CTE) and an observer on the Board of Directors of Taomee. Mr. Jaisinghani played a key role in SCG’s investments in Partner, Media Nusantara Citra, MNC Sky Vision, CTE and Taomee. Mr. Jaisinghani was also involved with SCG’s controlling investment in Bezeq Telecommunications Company Ltd. until its sale in April 2010. Prior to joining SCG, Mr. Jaisinghani worked as an investment banker in the Mergers & Acquisitions Group of J.P. Morgan in New York. Mr. Jaisinghani holds a B.S. in Finance and Management, with high distinction, from Indiana University's Kelley School of Business. To the best knowledge of the Company and the Company's Directors, Mr. Jaisinghani is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

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

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

Mr. Yahel Shachar was appointed to the Board of Directors of Partner in October 2009 and is currently a member of the Security Committee. Mr. Shachar has served for the last six and a half years as Chief Executive Officer of Scailex Corporation Ltd. (he joined Scailex in December 2001 as Chief Financial Officer) and for the last three years as the Chief Executive Officer of Suny Electronics Ltd. Mr. Shachar serves as Chairman of the Board of Directors of Tapuz Anashim Ltd. Before joining Scailex, Mr. Shachar served as Chief Operating Officer at BVR Technologies Ltd. for three years. Mr. Shachar holds an LL.B. degree from Tel-Aviv University, an LL.M. degree from Georgetown University in Washington, D.C. and he is a member of the Israeli and New York bar associations. To the best knowledge of the Company and the Company's Directors, Mr. Shachar is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. Elon Shalev was appointed to the Board of Directors of Partner effective as of January 29, 2013. Mr. Shalev serves as Chairman of the Board of Directors of SHL Telemedicine Ltd. and as a senior advisor to Saban Capital Group. 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. From 2004-2012, Mr. Shalev served as Chairman of the Board of Directors of Logia Ltd., a mobile content solutions provider. 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. To the best knowledge of the Company and the Company's Directors, Mr. Shalev is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

Mr. Arie (Arik) Steinberg was appointed to the Board of Directors of Partner in January 2012 and is currently a member of the Audit Committee and the Compensation Committee. Mr. Steinberg served from 2006-2010 as Chairman of the Board of Directors of Psagot Investment House, Ltd., as well as other companies in the Psagot Group, leading and overseeing the business strategies of the Psagot Group. Mr. Steinberg served as Chairman on behalf of York Capital. In addition, he served on the Board of Directors of the Tel-Aviv Stock Exchange. Mr. Steinberg also served between 1999 - 2003 as Chief Executive Officer of Ilanot Batucha Investment House from the IDB Group as well as a director of Maalot - Israel’s rating company (business partner of S&P). 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 Novatrans Group SA. Mr. Steinberg studied Economics at Tel-Aviv University. To the best knowledge of the Company and the Company's Directors, Mr. Steinberg is not a Family Member of another Interested Party (as both terms are defined in the Israeli Securities Law) in the Company.

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

(i) “RESOLVED: to re-elect Mr. Shlomo Rodav, Mr. Ilan Ben-Dov, Mr. Adam Chesnoff, Mr. Fred Gluckman, Mr. Sumeet Jaisinghani, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr. Yahel Shachar, Mr. Elon Shalev and Mr. Arie (Arik) Steinberg, to serve as directors of the Company until the close of the next annual general meeting, unless their office becomes vacant earlier in accordance with the provisions of the Israeli Companies Law and the Company’s Articles of Association;

(ii) RESOLVED: to approve that (A) no change will be made to the Compensation of Mr. Ilan Ben-Dov, Mr. Adam Chesnoff, Mr. Fred Gluckman, Mr. Sumeet Jaisinghani, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr. Yahel Shachar and Mr. Elon Shalev; (B) no change will be made to the reimbursement of reasonable expenses of the directors listed above; and (C) the directors listed above and Mr. Shlomo Rodav will continue to benefit from the Company's D&O insurance policy;

(iii) RESOLVED: to approve that (A) no change will be made to the Compensation of Ms. Osnat Ronen and Mr. Arie (Arik) Steinberg; (B) no change will be made to the reimbursement of reasonable expenses of Ms. Osnat Ronen and Mr. Arie (Arik) Steinberg; (C) Ms. Osnat Ronen and Mr. Arie (Arik) Steinberg will continue to benefit from the Company's D&O insurance policy; and (D) the indemnification letters granted to Ms. Osnat Ronen and Mr. Arie (Arik) Steinberg will continue in full force and effect;

(iv) RESOLVED: to approve and ratify, subject to the adoption of the pertinent part of Resolution 7 below, the grant of an indemnification letter to each of the following directors: Mr. Shlomo Rodav, Mr. Ilan Ben-Dov, Mr. Adam Chesnoff, Mr. Fred Gluckman, Mr. Sumeet Jaisinghani, Mr. Yoav Rubinstein, Mr. Arieh Saban, Mr. Yahel Shachar and Mr. Elon Shalev; and

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

The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of items no. 4(i) and 4(iii) on the agenda. The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of items no. 4(ii) and 4(iv) on the agenda; provided, that one of the following conditions is fulfilled: (i) the majority of votes in favor of the matter shall include at least a majority of the votes of shareholders not constituting Controlling Parties (as stated in the Israeli Companies Law, "Controlling Parties") in the Company, or those having a Personal Interest (as defined in the Israeli Companies Law, a "Personal Interest") in the approval of this item, participating in the vote; which votes shall not include abstaining votes; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the Company.

A shareholder shall notify the Company at the address above at least seventy two (72) hours prior to the time of the AGM, whether the shareholder is a Controlling Party in the Company or the shareholder has a Personal Interest in the approval of items no. 4(ii) and 4(iv) on the agenda or not, as a condition for that shareholder's right to vote and be counted with respect to these items. A shareholder voting, by means of a Deed of Vote, may include said notice regarding his Controlling Party Interest or his Personal Interest on the Deed of Vote (to be submitted to the Company at least seventy two (72) hours prior to the time of the AGM).

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

ITEM 5

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

The Israeli Companies Law was recently revised by Amendment No. 20 ("Amendment 20"), which has effected substantial revisions in the manner that Israeli companies like us may compensate directors and other Office Holders (as such term is defined in the Israeli Companies Law, each an "Office Holder").

We propose adopting hereby, pursuant to the provisions of Amendment 20, a compensation policy for our Office Holders, substantially in the form attached hereto as Annex "C" (the "Compensation Policy" or the "Policy"). For the shareholders' convenience, attached hereto as Annex "D" is an English convenience translation of the binding Hebrew Compensation Policy.

The Terms of Office and Employment[1] of our Office Holders are to be determined on the basis of the Compensation Policy (the “Compensation" or the “Compensation Plan”) and shall be submitted for approval by our Compensation Committee of the Board of Directors (the "Compensation Committee"), our Board of Directors and, if applicable, the General Meeting of shareholders, as required under the Israeli Companies Law.[2]

At least once every three years, and following our Compensation Committee's recommendation, our Board of Directors shall discuss and decide whether to approve a Compensation Policy for our Office Holders that will advance our targets. Our Compensation Committee and Board of Directors shall also review our Compensation Policy and the need to amend it to conform to the provisions of the law from time to time, or in the event that a material change in circumstances occurs from those that had existed when the Policy was last approved or for other reasons. The Compensation Policy shall be submitted for the approval of the General Meeting of shareholders as required pursuant to the Israeli Companies Law.[3]

The Compensation Policy is based on principles that enable a proper balance between the desire to reward Office Holders for their achievements and the need to ensure that the structure of the Compensation is in line with the Company's benefit and overall strategy over time. The purpose of the Policy is to set guidelines for the manner of compensation of our Office Holders. We deem our Office Holders as partners in the Company's success and consequently, derived our comprehensive view with respect to our Office Holders' Compensation. It is hereby clarified that no statement in the Policy or herein purports to vest any right to the Office Holders to whom the principles of the Policy apply, or to any other third party, and not necessarily will use be made of all of the components and ranges presented in the Policy (e.g., we are currently at the lower part of these ranges).

The purpose of the Policy is to set guidelines for the compensation manner of our Office Holders. Therefore, the indices presented in the Policy are intended to prescribe an adequately broad framework that shall enable our Compensation Committee and Board of Directors to formulate personal Compensation Plans[4] for any Office Holder or a particular compensation component according to individual circumstances (including unique circumstances), according to the Company’s needs, in a manner that is congruent with the Company's benefit and the Company’s overall strategy over time.

---

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

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

3 However, to the extent permitted by law, if the General Meeting shall oppose approving the Policy, the Compensation Committee and Board of Directors shall be able to approve the Policy, after having held another discussion of the Policy and after having determined, on the basis of detailed reasoning, that, notwithstanding the opposition of the General Meeting, the adoption of the Policy is for the benefit of the Company. This provision is not currently applicable to us.

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

Our Board of Directors is responsible for managing and implementing the Compensation Policy, and has the authority to interpret the provisions of the Compensation Policy in any instance of doubt as to how to implement it. Without derogating from the foregoing and subject to the requirements of the Israeli Companies Law, following its approval by our Compensation Committee, our Board of Directors shall formulate and approve Compensation Plans for Office Holders, in reference to the Compensation Policy and to data presented for this purpose by our Chief Executive Officer or on his behalf at the relevant time of review.

Notwithstanding anything in the Policy, prior to adopting a resolution regarding the grant of Compensation pursuant to the Policy, our Board of Directors (upon the recommendation of the Compensation Committee) may resolve to reduce or cancel amounts of Bonuses (as defined in the Policy), or part thereof, to be calculated by virtue of the approved Compensation Plans, for the reasons specified in the Policy and particularly due to the Company’s results, as well as other considerations, to be reasoned and specified.

As required pursuant to the provisions of Amendment 20, our Board of Directors has appointed a board committee for compensation matters, comprised, as of the date hereof, of three members - all of our serving external directors (Mr. Barry Ben Zeev (Woolfson), Chairman and Dr. Michael Anghel) and one independent director (bilty talui) (Mr. Arie (Arik) Steinberg).

Our Board of Directors shall discuss and resolve the supervision manner of the appropriate implementation of the Compensation Policy, intended to ensure that it is being implemented. Without derogating from the generality of the foregoing, our Board of Directors (upon the recommendation of our Compensation Committee) shall at any time be authorized to instruct that Bonuses shall be calculated in a manner differing from that specified in a particular Compensation Plan, or to resolve that any particular Bonus by virtue of a particular Compensation Plan shall not be paid at all, and shall be authorized to instruct the revision, cancellation or suspension of any particular Compensation Plan, for reasons deemed fit by it, in light of considerations of the Company's benefit and subject to any law; provided, that any payment to any of the relevant Office Holders deriving from the implementation of revisions as stated, shall not exceed the payment amount that would originally have been paid by virtue of that particular Compensation Plan were it not for the effected revisions. This authority of our Board of Directors shall also be exercisable in relation to a Compensation Plan for which the targets for a particular year have already been approved by our Board of Directors and brought to the attention of those Office Holders who are benefitting from it, as long as the payment pursuant thereto has not yet been paid.

The Compensation Policy was formulated with the aim of advancing the Company's objectives, its work plans and its policies with a long-term perspective, and in a manner that creates appropriate incentives for the Company's Office Holders, while taking into account, inter alia, the Company's risk-management policy, its size, its financial position and the nature of its activities. The Company designed the Compensation mechanism for Office Holders in a manner intended to encourage improvement in the Company's business processes and mode of operation and to encourage the increase of the Company's profitability over time. The Compensation Policy was set in a manner that will be congruent with the Company's business strategy and will constitute an incentive to implement it, and in a manner designed to enhance the Office Holders' sense of identification with the Company and its activities, increase their satisfaction and motivation and ensure that the Company can retain those Office Holders who have been contributing to the Company over time. The Compensation Policy prescribes an outline of principles whereby a Compensation Plan shall be defined for each of the Office Holders, which is generally comprised of three components - Ongoing Remuneration, annual Bonus and Equity Compensation (as these terms are defined in the Policy), all pursuant to the principles specified in the Policy. Without limiting the generality of the foregoing, the Ongoing Remuneration is generally set within the customary range for Office Holders at similar companies and the terms thereof in the Policy are a maximum level, not conferring a right to any employee to demand these terms. Also, the annual Bonus is based on a targets plan at the level of the Company, the division and a personal evaluation. The targets plan is usually defined in advance shortly after the Company's budget is approved for the following year and before the start of the year for which the annual Bonus is to be paid. Finally, the Equity Compensation is intended to align the long-term interests of our Office Holders with those of our shareholders (however the real value thereof at the time of exercise, if any, is difficult to determine). As we wish to limit our fixed expenses (the Ongoing Remuneration) while preserving flexibility to attract and retain high-quality Office Holders, there is a fundamental preference in the Policy for allowing a relatively wide range of Variable Components for future utilization.

Further details regarding the principles for and outline of Office Holders' personal Compensation Plans and of various compensation components are detailed in the Compensation Policy.

The Compensation Policywas not formulated to prejudice existing compensation of any of the Company's Office Holders (including the Company's Chief Executive Officer, as detailed in the Policy), because the Office Holders have relied thereon during their employment by the Company, and the Company will abide by all of the existing arrangements that are in effect on the approval date of this Compensation Policy, as long as these remain in effect. Any existing Compensation (including Bonuses), where the granting thereof and the method used to determine it are not discretionary (such as a Bonus deriving from predefined quantitative targets or calculated according to the period of employment), is not subject to approval according to the Compensation Policy or Amendment 20; any existing Compensation where the granting thereof is discretionary (such as a Bonus being awarded in recognition of overall contribution to the Company) shall require approval as required pursuant to the Israeli Companies Law.

In the event that an Office Holder of the Company was paid sums on the basis of data that was subsequently discovered to be erroneous and was restated in the Company's financial statements, said Office Holder shall be obligated to return to the Company, or the Company shall be obligated to pay to the Office Holder (as the case may be), the difference between the sum actually paid and the sum to which the Office Holder had been entitled to originally, according to the aforesaid restatement.

The full text of the Compensation Policy is attached hereto as Annex "C". The summary above is qualified in its entirety by reference to the full text of the Policy.

Our Compensation Committee has considered various matters in connection with our Compensation Policy on four separate occasions. Thereafter, it has approved the Compensation Policy and recommended that our Board of Directors and our shareholders approve it. Our Board of Directors has conducted two separate meetings to consider the Compensation Policy recommended by our Compensation Committee. In their extensive deliberations, our Compensation Committee and our Board of Directors have respectively considered numerous factors and aspects (including those required by Amendment 20) affecting the Policy and discussed the provisions of the Policy as well as various compensation components included in the Policy.

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

The directors noted that the Compensation Policy is based on principles that enable a proper balance between the desire to reward Office Holders for their achievements and the need to ensure that the structure of the Compensation is in line with the Company's benefit and overall strategy over time. The purpose of the Policy is to set guidelines for the manner of Compensation of our Office Holders. The directors deem our Office Holders as partners in the Company's success and consequently, derived a comprehensive view with respect to our Office Holders' Compensation.

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

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

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

As described above (under item no. 4), Scailex announced in 2012, that S.B. and Scailex (and their respective affiliates) are generally voting in a unified manner (according to a majority vote among them).

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

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

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

The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of item no. 5 on the agenda; provided, that one of the following conditions is fulfilled: (i) the majority of votes in favor of the matter shall include at least a majority of the votes of shareholders not constituting Controlling Parties in the Company, or those having a Personal Interest in the approval of this item, participating in the vote; which votes shall not include abstaining votes; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the Company.

A shareholder shall notify the Company at the address above at least seventy two (72) hours prior to the time of the AGM, whether the shareholder is a Controlling Party in the Company or the shareholder has a Personal Interest in the approval of item no. 5 on the agenda or not, as a condition for that shareholder's right to vote and be counted with respect to this item. A shareholder voting by means of a Deed of Vote, may include said notice regarding his Controlling Party interest or his Personal Interest on the Deed of Vote (to be submitted to the Company at least seventy two (72) hours prior to the time of the AGM).

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

ITEM 6

APPROVAL OF A REGISTRATION RIGHTS AGREEMENT

The U.S. Securities Act of 1933 (“U.S. Securities Act”) requires shares to be registered with the Security & Exchange Commission (“SEC”) before they can be sold to the public in the U.S., subject to certain exemptions; a Registration Right Agreement allows shareholders to require the Company to register their shares under the U.S. Securities Act and to freely dispose of their shares in the U.S. public market.

On October 26, 1999, the Company entered into a Registration Rights Agreement with its then principle founding shareholders (Advent Investments Pte. Ltd. (“Advent”), Matbit Telecommunications Systems Ltd., Tapuz Cellular Systems Limited Partnership and Matav Investments Ltd.), which granted the above-mentioned shareholders the right to require the Company to register Ordinary Shares held by them under the U.S. Securities Act (the “Original RRA”).

On October 28, 2009, the Company entered into a Registration Rights Agreement with Scailex Corporation Ltd. (“Scailex”), following the change of control transaction between Advent and Scailex, according to which Scailex purchased 78,940,104 Ordinary Shares of the Company from Advent (the “Existing RRA”). In the Existing RRA, which was based on the Original RRA and was substantially similar to it, the Company agreed that, upon request from any Holders (as this term is defined in the Existing RRA) (the ”Demand Right”), the Company will file a registration statement under the U.S. Securities Act to register the Ordinary Shares held by them, subject to a maximum request of one Demand Right in any six-month period and to certain other limitations. There is no limit to the number of registrations that can be requested under the Existing RRA. The minimum amount of shares that must be included in any registration that can be requested under the Existing RRA is 2.65% of the outstanding shares. The Company has also granted to the Holders the right to include their Ordinary Shares in the registrations made by the Company (the “Piggy Back Right”). Upon the exercise of the Demand Right or the Piggy Back Right (the “Registration Rights”), the Company will be required to prepare and file a registration statement with the SEC, enter into an underwriting agreement in a customary form (in the case of an underwritten offering) and procure the delivery of certain customary documents, including legal opinions and comfort letters. In the case of a Demand Right, the Holders will pay all of their own legal fees and underwriting discounts and commissions applicable to the securities being offered and the remaining expenses are shared pro rata by the Company and the Holders. In the case of a Piggy Back Right, the Company will pay all fees except the underwriting discount applicable to the shares being sold by the Holders and the Holders' legal fees. The Existing RRA also provides that the Company will indemnify each selling Holder and any underwriter against any liability arising as a result of a material misstatement in, or omission from, the registration statement.

The Existing RRA will terminate with respect to each of the Holders upon the earlier of (i) October 27, 2014 and (ii) when the Registerable Shares held by such Holders can be sold in the United States public market pursuant to an exemption from the registration requirements of the U.S. Securities Exchange Act of 1934, without regard to a holding period, volume or manner-of-sale limitations.

It is proposed hereby that the Company will enter into a registration rights agreement with S.B., substantially in the form attached hereto as Annex “E” (the “Proposed RRA”). The terms and conditions of the Proposed RRA are based on the Existing RRA and are similar to it, except for the amendments annotated in Annex “E”, and as follows:

(i) the Holders shall also have the right to require the Company to file, if the Company qualifies, a shelf registration statement relating to the offer and sale of all Registerable Shares by the Holders from time to time in accordance with the methods of distribution elected by such Holders.

(ii) the Company shall be deemed to have effected a Demand Registration (1) if the demand registration statement is declared effective by the SEC and remains effective for not less than one hundred eighty (180) days (or such shorter period as shall terminate when all Registerable Shares covered by such demand registration statement have been sold or withdrawn), or (2) if such registration statement relates to an underwritten offering, such longer period as, in the opinion of counsel for the underwriter or underwriters, a prospectus is required by law to be delivered in connection with sales of Registerable Shares by an underwriter or dealer (the applicable period, the “Demand Period”) or (3) if in connection with a shelf registration statement, the shelf registration statement is continuously effective under the U.S. Securities Act in order to permit the prospectus forming a part thereof to be usable by Holders until the date as of which all Registerable Shares have been sold pursuant to the shelf registration statement or another registration statement filed under the U.S. Securities Act or the date as of which the Holders are permitted to sell their Registerable Shares without registration under the U.S. Securities Act pursuant to Rule 144 under the U.S. Securities Act without volume limitation or other restrictions on transfer thereunder.

No Demand Registration shall be deemed to have been effected if (1) during the Demand Period such registration is interfered with by any stop order, injunction or other order or requirement of the SEC or other governmental agency or court or (2) the conditions to closing specified in the underwriting agreement, if any, entered into in connection with such registration are not satisfied other than by reason of a wrongful act, misrepresentation or breach of such applicable underwriting agreement by the Holders;

(iii) in case of a Piggyback Registration - if the offering pursuant to a registration statement is to be underwritten, then each Holder making a request for a Piggyback Registration must, and the Company shall make such arrangements with the managing underwriter or underwriters so that each such Holder may, participate in such underwritten offering. If the offering pursuant to a registration statement is to be on any other basis, then each Holder making a request for a Piggyback Registration must, and the Company shall make such arrangements so that each such Holder may, participate in such offering on such basis. Each Holder shall be permitted to withdraw all or part of its Registerable Shares from a Piggyback Registration at any time prior to the effectiveness of such registration statement;

(iv) the term of the Proposed RRA shall terminate with respect to a Holder on the earlier of: (A) seven (7) years from the Effective Date; and (B) when the Registerable Shares held by such Holder can be sold in the United States public market pursuant to an exemption from the registration requirements of the U.S. Securities Act and without regard to a holding period, volume or manner-of-sale limitations; and

(v) other changes annotated on Annex “E”.

The Company was informed by Scailex that under the terms of the Share Purchase Agreement, the parties agreed that subject to any applicable law, each of Scailex and S.B. undertakes at all times to affirmatively vote all of their Shares for the approval of the Registration Rights Agreement, as may be amended from time to time.

The Audit Committee and the Board of Directors have noted the personal interest (as defined in the Israeli Companies Law) of the directors nominated by S.B. (Mr. Shlomo Rodav, Mr. Adam Chesnoff, Mr. Fred Gluckman, Mr. Sumeet Jaisinghani, Mr. Yoav Rubinstein, Mr. Arieh Saban and Mr. Elon Shalev) and the personal interest of the directors nominated by Scailex (Mr. Ilan Ben-Dov and Mr. Yahel Shachar) in this matter.

The Audit Committee and the Board of Directors of the Company approved, and recommended to the shareholders at the AGM to approve, the Proposed RRA and resolved that the Proposed RRA is in the best interest of the Company since it will help to facilitate an orderly disposal of the Company's shares by the shareholder who will become a beneficiary of the Proposed RRA in consultation and coordination with the Company and will allow the Company to regulate disposals by such a shareholder not during "blackout" periods, as well as when the Company offers shares in the market at its initiative.

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

"RESOLVED: to approve the Registration Rights Agreement between the Company and S.B. Israel Telecom Ltd.

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

The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of item no. 6 on the agenda; provided, that one of the following conditions is fulfilled: (i) the majority of votes in favor of the matter shall include at least a majority of the votes of shareholders not constituting Controlling Parties in the Company, or those having a Personal Interest in the approval of this item, participating in the vote; which votes shall not include abstaining votes; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the Company.

A shareholder shall notify the Company at the address above at least seventy two (72) hours prior to the time of the AGM, whether the shareholder is a Controlling Party in the Company or the shareholder has a Personal Interest in the approval of item no. 6 on the agenda or not, as a condition for that shareholder's right to vote and be counted with respect to this resolution. A shareholder voting, by means of a Deed of Vote, may include said notice regarding his Controlling Party interest or his Personal Interest on the Deed of Vote (to be submitted to the Company at least seventy two (72) hours prior to the time of the AGM).

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

ITEM 7

APPROVAL AND RATIFICATION OF THE GRANT OF INDEMNIFICATION LETTERS TO DIRECTORS

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

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

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

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

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

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

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

On October 22, 2009, the shareholders of the Company approved the grant of an indemnification letter to each of the Company's then current and future directors. On May 8, 2012, the shareholders of the Company approved the grant of a new indemnification letter, which was revised mainly to conform it to the Israeli Companies Law and to update it for matters anticipated in light of the Company's current activities and otherwise (the "New Indemnification Letter"), to the following directors currently serving on the Board of Directors: Dr. Michael Anghel, Mr. Barry Ben-Zeev (Woolfson), Ms. Osnat Ronen and Mr. Arie (Arik) Steinberg. The resolutions with respect to the granting of the New Indemnification Letter to the other directors that were serving on the Board of Directors at that time (Mr. Ilan Ben-Dov, Dr. Shlomo Nass, Dr. Arie Ovadia and Mr. Yahel Shachar) were not approved by the required special majority.

At the Extraordinary General Meeting of shareholders held on April 11, 2013 (the "EGM"), the Company proposed to issue the New Indemnification Letter (which included a clarification with respect to the calculation method of the maximum indemnity amount and an obligation to repay the Company any amount paid, in certain circumstances, as explained below) to each of (i) Mr. Shlomo Rodav, (ii) Mr. Ilan Ben-Dov, (iii) Mr. Adam Chesnoff, (iv) Mr. Fred Gluckman, (v) Mr. Sumeet Jaisinghani, (vi) Mr. Yoav Rubinstein, (vii) Mr. Arieh Saban, (viii) Mr. Yahel Shachar and (ix) Mr. Elon Shalev, in each case, serving (including prior to the date thereof) as the Company's director, or as a director or office holder on behalf of the Company in other companies (each, an "Indemnified Person"; collectively, the "Indemnified Persons"). In light of the reservations raised at the EGM with respect to the approval of the grant of the New Indemnification Letter to the Indemnified Persons, probably due to the objection to approve the maximum indemnity amount, as set forth in the New Indemnification Letter (which will not exceed the higher of (i) 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) and (ii) 25% of market capitalization (measured at the time of approval of the indemnification payment by the Board of Directors, according to the average market capitalization in the 30 trading days immediately preceding the Board of Directors' resolution), the resolutions with respect to the granting of the New Indemnification Letter to the Indemnified Persons, were not approved by the required special majority.

Therefore, the Company is hereby proposing to issue a revised indemnification letter to each of the Indemnified Persons, substantially in the form attached hereto as Annex "F" (the "Revised Indemnification Letter"), effective as of January 29, 2013, except with respect to the indemnification letters of Mr. Ilan Ben-Dov and Mr. Yahel Shachar, which will be effective as of April 28, 2013 (the date of expiration of their previous indemnification letters). According to the Revised Indemnification Letter, the aggregate indemnification amount payable by the Company to the Indemnified Persons and all other indemnified persons pursuant to all letters of indemnification issued to them by the Company on or after July 25, 2013, which indemnification letters include a maximum indemnity amount substantially similar to the Maximum Indemnity Amount under Section 3.13 of the Revised Indemnification Letter (the "Maximum Indemnity Amount"), for any occurrence of an event set out in Schedule I to the Revised Indemnification Letter (each, an "Event"), will not exceed 25% of shareholders equity (according to the latest reviewed or audited financial statements approved by Partner's Board of Directors prior to approval of the indemnification payment); provided, however, that under the circumstances where indemnification for the same Event is to be made in parallel to (i) an Indemnified Person and such other indemnified persons under a Revised Indemnification Letter (or other letters including a maximum indemnity amount substantially similar to the Maximum Indemnity Amount), and to (ii) one or more indemnified persons under indemnification letters issued (or to be issued) by Partner containing a maximum indemnity amount which is the higher of 25% of shareholders equity and 25% of market capitalization (the "Combined Maximum Indemnity Amount"), the Maximum Indemnity Amount for any Indemnified Person and any other indemnified person under a Revised Indemnification Letter (or other letters including a maximum indemnity amount substantially similar to the Maximum Indemnity Amount) shall be adjusted so it does not exceed the Combined Maximum Indemnity Amount to which any other indemnified person is entitled under any indemnification letter containing the Combined Maximum Indemnity Amount.

The Revised Indemnification Letter is annotated to show changes made from the version of the New Indemnification Letter approved by the shareholders on May 8, 2012, (A) to change the Maximum Indemnity Amount, as explained above, and to clarify the calculation method of the Maximum Indemnity Amount, and (B) to state that an Indemnified Person shall repay to Partner any amount received pursuant to an Indemnification Letter, which is based on data or financial results that will later be found to be erroneous and restated in Partner's financial statements. The description herein is qualified in its entirety by reference to the full text of the annotated Revised Indemnification Letter.

The Compensation Committee and Board of Directors have considered several factors in connection with the proposed resolutions (in line with Amendment 20 to the Israeli Companies Law as described above), including the following: (a) that generally, the indemnification letter should be in a uniform manner for all directors (as customary) at the time of the grant and it is not appropriate to adjust it separately to the circumstances of each director or to other compensation he receives from the Company and it should be set according to quantifiable criteria and it is irrelevant to compare the indemnification letter to the compensation of Company employees (or the employees of manpower contractors who are working at the Company). In addition, the essence of the indemnification letter does not allow for the possibility of retaining discretion with respect to a reduction of the indemnification when it is actually paid; (b) that the Revised Indemnification Letter was revised so that a condition was added that clarifies that a director will be required to repay the Company amounts paid to him based on data that was later restated in the Company's financial statements; (c) that granting the Revised Indemnification Letter to directors is important to enable the directors to promote the Company's objectives, its business plan and policy in the long term and to create proper and balanced incentives to the directors considering, among other things, the Company's risk-management policy, size and nature of activities; (d) that granting the Revised Indemnification Letter to directors is essential to ensure the recruitment and service of appropriate directors, having the qualifications, expertise and experience relevant to serving on the Company's Board of Directors, considering the high exposure faced today by directors in public companies and moreover in companies with securities publicly listed in the USA and in Israel.

The Compensation Committee and the Board of Directors of the Company have approved and ratified, and recommended to the shareholders at the AGM to approve and ratify, the grant of the Revised Indemnification Letter to each Indemnified Person, resolved that the Maximum Indemnity Amount is reasonable given the circumstances and that the indemnification events listed in Schedule I of the Revised Indemnification Letter are anticipated in light of Partner's current activities, and resolved that such resolutions are in the best interest of the Company. The Compensation Committee and the Board of Directors have noted that the directors who are Indemnified Persons have a Personal Interest in this matter.

As announced in 2012 by Scailex, S.B. and Scailex (and their respective affiliates) are generally voting in a unified manner (according to a majority vote among them).

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

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

(ii) RESOLVED: to approve and ratify the Company's undertaking to indemnify Mr. Ilan Ben-Dov and to provide him with the Revised Indemnification Letter;

(iii) RESOLVED: to approve and ratify the Company's undertaking to indemnify Mr. Adam Chesnoff and to provide him with the Revised Indemnification Letter;

(iv) RESOLVED: to approve and ratify the Company's undertaking to indemnify Mr. Fred Gluckman and to provide him with the Revised Indemnification Letter;

(v) RESOLVED: to approve and ratify the Company's undertaking to indemnify Mr. Sumeet Jaisinghani and to provide him with the Revised Indemnification Letter;

(vi) RESOLVED: to approve and ratify the Company's undertaking to indemnify Mr. Yoav Rubinstein and to provide him with the Revised Indemnification Letter;

(vii) RESOLVED: to approve and ratify the Company's undertaking to indemnify Mr. Arieh Saban and to provide him with the Revised Indemnification Letter;

(viii) RESOLVED: to approve and ratify the Company's undertaking to indemnify Mr. Yahel Shachar and to provide him with the Revised Indemnification Letter; and

(ix) RESOLVED: to approve and ratify the Company's undertaking to indemnify Mr. Elon Shalev and to provide him with the Revised Indemnification Letter.

RESOLVED: with respect to each item above, that the Maximum Indemnity Amount is reasonable given the circumstances and that the indemnification events listed in Schedule I of the Revised Indemnification Letter are anticipated in light of Partner's current activities.

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

The vote of the holders of a majority of the Ordinary Shares participating in the AGM and voting on the matter is required for the approval of any of items no. 7(i)-7(ix) on the agenda; provided, that one of the following conditions is fulfilled: (i) the majority of votes in favor of the matter shall include at least a majority of the votes of shareholders not constituting Controlling Parties in the Company, or those having a Personal Interest in the approval of the pertinent items participating in the vote; which votes shall not include abstaining votes; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) does not exceed 2% of the total voting rights in the Company.

A shareholder shall notify the Company at the address above at least seventy two (72) hours prior to the time of the AGM, whether the shareholder is a Controlling Party in the Company or the shareholder has a Personal Interest in the approval of any of items no. 7(i)-(ix) on the agenda or not, as a condition for that shareholder's right to vote and be counted with respect to these items. A shareholder voting, by means of a Deed of Vote, may include said notice regarding his Controlling Party Interest or his Personal Interest on the Deed of Vote (to be submitted to the Company at least seventy two (72) hours prior to the time of the AGM).

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

RESTRICTIONS ON VOTING RIGHTS

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

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

By Order of the Board of Directors

ROLY KLINGER, ADV.

Company Secretary

Dated: June 20, 2013

- 28 -

Annex "A"

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)
2012 ANNUAL REPORT

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

2012 ANNUAL REPORT

TABLE OF CONTENTS

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.

We have completed integrated audits of Partner Communications Company Ltd.'s ("the Company" or "Partner") consolidated financial statements and of its internal control over financial reporting as of December 31, 2012, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our integrated audits, are presented below.

Consolidated financial statements

We have audited the consolidated statement of financial position of Partner as of December 31, 2011 and 2012, and the related consolidated statements of income, of comprehensive income, of changes in equity and of cash flows for each of the three years in the period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our integrated audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Partner as of December 31, 2011 and 2012, and the results of its operations, of changes in equity and of its cash flows for each of the three years in the period ended December 31, 2012, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Internal control over financial reporting

Also, in our opinion, the Company maintained, in all material respects, effective internal control over its financial reporting as of December 31, 2012, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Kesselman & Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 68125, Israel, P.O Box 452 Tel-Aviv 61003
Telephone: +972 -3- 7954555, Fax:+972 -3- 7954556, www.pwc.co.il

The Company's Board of Directors and management are responsible for maintaining effective internal control over financial reporting and management is responsible for the assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 15(b). Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also includes performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 18, 2013	Kesselman & Kesselman Certified Public Accountants (Isr.) A member of PricewaterhouseCoopers International Limited

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	New Israeli Shekels 2011	December 31, 2012	Convenience translation into U.S. dollars (note 2a) 2012
			In millions	
CURRENT ASSETS				
Cash and cash equivalents		532	548	147
Trade receivables	8	1,518	1,397	375
Other receivables and prepaid expenses		41	47	13
Deferred expenses – right of use	12	19	22	6
Inventories	9	162	98	26
Income tax receivable		12	7	2
Derivative financial instruments	7	24	1	*
		2,308	2,120	569
NON CURRENT ASSETS				
Trade Receivables	8	856	509	136
Deferred expenses – right of use	12	142	138	37
Assets held for employee rights upon retirement, net	17	3		
Property and equipment	10	2,051	1,990	533
Licenses and other intangible assets	11	1,290	1,217	326
Goodwill	5, 13(b)	407	407	109
Deferred income tax asset	25	30	36	9
		4,779	4,297	1,150
TOTAL ASSETS		7,087	6,417	1,719

* Representing an amount less than 1 million

The financial statements were authorized for issue by the board of directors on March 18, 2013.

Haim Romano	Ziv Leitman	Barry Ben-Zeev (Woolfson)
Chief Executive Officer	Chief Financial Officer	Director

A - 4

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	New Israeli Shekels		Convenience translation into U.S. dollars (note 2a)
		December 31,		
		2011	2012	2012
		In millions		
CURRENT LIABILITIES				
Current maturities of notes payable and current borrowings	15,16	498	306	82
Trade payables		913	866	231
Parent group - trade	26	142	70	19
Payables in respect of employees		143	110	29
Other payables (mainly institutions)		73	59	16
Deferred revenues		52	40	11
Provisions	14	65	60	16
Derivative financial instruments	7	3	14	4
		1,889	1,525	408
NON CURRENT LIABILITIES				
Notes payable	16	2,605	2,321	622
Bank borrowings	15	2,068	1,733	464
Liability for employee rights upon retirement, net	17	48	50	13
Dismantling and restoring sites obligation	14	25	28	8
Other non-current liabilities		10	10	3
Deferred tax liability	25	17	9	2
		4,773	4,151	1,112
TOTAL LIABILITIES		6,662	5,676	1,520
EQUITY	21			
Share capital - ordinary shares of NIS 0.01 par value: authorized - December 31, 2011 and 2012 - 235,000,000 shares; issued and outstanding -		2	2	1
December 31, 2011 – *155,645,708 shares				
December 31, 2012 – –*155,645,708 shares				
Capital surplus		1,100	1,100	295
Accumulated deficit		(326)	(10)	(3)
Treasury shares, at cost - December 31, 2011 and 2012 - 4,467,990 shares		(351)	(351)	(94)
TOTAL EQUITY		425	741	199
TOTAL LIABILITIES AND EQUITY		7,087	6,417	1,719

* 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 INCOME

					Convenience translation into U.S. Dollars (note 2a)
		New Israeli Shekels			
		Year ended December 31			
		2010	2011	2012	2012
	Note	In millions (except earnings per share)			
Revenues, net	6	6,674	6,998	5,572	1,493
Cost of revenues	6, 22	4,093	4,978	4,031	1,080
Gross profit		2,581	2,020	1,541	413
Selling and marketing expenses	22	479	711	551	148
General and administrative expenses	22	306	291	236	63
Impairment of goodwill	13(b)		87		
Other income, net	23	64	105	111	30
Operating profit		1,860	1,036	865	232
Finance income	24	28	39	27	7
Finance expenses	24	209	333	261	70
Finance costs, net	24	181	294	234	63
Profit before income tax		1,679	742	631	169
Income tax expenses	25	436	299	153	41
Profit for the year		1,243	443	478	128
Earnings per share					
Basic		8.03	2.85	3.07	0.82
Diluted	27	7.95	2.84	3.07	0.82

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 2a)
		Year ended December 31			
		2010	2011	2012	2012
	Note	In millions			
Profit for the year		1,243	443	478	128
Other comprehensive income (losses)					
Actuarial losses, net on defined benefit plan	17	(8)	(21)	(17)	(4)
Income taxes relating to actuarial losses on defined benefit plan	25	2	5	4	1
Other comprehensive income (losses) for the year, net of income taxes		(6)	(16)	(13)	(3)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,237	427	465	125

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 deficit	Treasury shares	Total
	Note				In millions		
New Israeli Shekels:							
BALANCE AT JANUARY 1, 2010		154,440,136	2	2,483	(172)	(351)	1,962
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2010							
Total comprehensive income for the year					1,237		1,237
Exercise of options granted to employees		809,040	*	16			16
Employee share-based compensation expenses					23		23
Capital reduction (see note 21(d))				(1,400)			(1,400)
Dividend	21				(1,212)		(1,212)
BALANCE AT DECEMBER 31, 2010		155,249,176	2	1,099	(124)	(351)	626
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2011							
Total comprehensive income for the year					427		427
Exercise of options granted to employees		396,532	*	1			1
Employee share-based compensation expenses					19		19
Dividend	21				(648)		(648)
BALANCE AT DECEMBER 31, 2011		155,645,708	2	1,100	(326)	(351)	425
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2012							
					465		465

Total comprehensive income for the year							
Employee share-based compensation expenses					11		11
Dividend	21				(160)		(160)
BALANCE AT DECEMBER 31, 2012		155,645,708	2	1,100	(10)	(351)	741
Convenience translation into U.S. Dollars (note 2a):							
BALANCE AT JANUARY 1, 2012		155,645,708	1	295	(87)	(94)	115
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2012							
Total comprehensive income for the year					125		125
Employee share-based compensation expenses					3		3
Dividend					(44)		(44)
BALANCE AT DECEMBER 31, 2012		155,645,708	1	295	(3)	(94)	199

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

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

(Continued) - 1

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	New Israeli Shekels Year ended December 31 2010	2011	2012	Convenience translation into U.S. dollars (note 2a) 2012
		In millions			
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash generated from operations (Appendix A)		2,384	1,881	1,858	499
Income tax paid	25	(426)	(311)	(153)	(41)
Net cash provided by operating activities		1,958	1,570	1,705	458
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property and equipment	10	(361)	(349)	(367)	(98)
Acquisition of intangible assets	11	(105)	(155)	(133)	(36)
Advance payment in respect of the acquisition of 012 Smile		(30)			
Acquisition of 012 smile, net of cash acquired of NIS 23 million (Appendix B)			(597)		
Interest received	24	5	12	9	2
Proceeds from sale of property and equipment			3	2	1
Proceeds from derivative financial instruments, net	7	5	1	18	5
Net cash used in investing activities		(486)	(1,085)	(471)	(126)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from exercise of stock options granted to employees		16	1		
Non-current bank borrowings received	15	1,000	900		
Proceeds from issuance of notes payable, net of issuance costs	16	990	1,136		
Dividend paid	21	(1,209)	(659)	(167)	(45)
Capital reduction (see note 21(d))		(1,400)			
Repayment of finance lease		(3)	(4)	(2)	(1)
Interest paid	24	(118)	(235)	(200)	(54)
Repayment of current borrowings	15		(128)		
Repayment of non-current bank borrowings	15		(699)	(455)	(122)

Repayment of notes payable	16	(756)	(586)	(394)	(106)
Net cash used in financing activities		(1,480)	(274)	(1,218)	(328)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(8)	211	16	4
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		329	321	532	143
CASH AND CASH EQUIVALENTS AT END OF YEAR		321	532	548	147

* Representing an amount of less than 1 million.

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

(Continued) - 2

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Appendix A– Cash generated from operations and supplemental information

	Note	New Israeli Shekels Year ended December 31, 2010	2011	2012	Convenience translation into U.S. dollars (note 2a) 2012
		In millions			
Cash generated from operations:					
Profit for the year		1,243	443	478	128
Adjustments for:					
Depreciation and amortization	10, 11	669	743	700	188
Amortization of deferred expenses- Right of use	12		29	26	7
Impairment of deferred expenses- Right of use	12, 13(a)		148		
Impairment of goodwill	13(b)		87		
Impairment of intangible assets	13	16	114		
Employee share based compensation expenses	21	23	19	11	3
Liability for employee rights upon retirement, net	17	8	(26)	(12)	(3)
Finance costs, net	24	53	71	38	10
Gain (loss) from change in fair value of derivative financial instruments	7	6	(19)	15	4
Interest paid	24	118	235	200	54
Interest received	24	(5)	(12)	(9)	(2)
Deferred income taxes	25	18	2	(10)	(2)
Income tax paid	25	426	311	153	41
Capital loss from property and equipment	10	3	2	*	*
Changes in operating assets and liabilities:					
Decrease (increase) in accounts receivable:					
Trade	8	(214)	(190)	467	125
Other		(40)	44	(5)	(1)
Increase (decrease) in accounts payable and accruals:					
Parent group - trade	26	38	70	(72)	(19)
Trade		(40)	(37)	(107)	(29)

Other payables		27	(91)	(44)	(12)
Provisions	14	(8)	36	(5)	(1)
Deferred revenues		(5)	*	(11)	(3)
Increase in deferred expenses - Right of use	12		(27)	(25)	(7)
Current income tax liability	25	(9)	(13)	5	1
Decrease (increase) in inventories	9	57	(58)	65	17
Cash generated from operations:		2,384	1,881	1,858	499

* Representing an amount less than 1 million.

Supplementary information

At December 31, 2010, 2011 and 2012, trade payables include NIS 220 million, NIS 217 million and NIS 280 million, respectively, in respect of acquisition of intangible assets and property and equipment.

At December 31, 2010, 2011 and 2012, tax withholding related to dividend of approximately NIS 17 million, NIS 6 million and NIS 0 million, respectively is outstanding, see also note 21(c).

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

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

(Concluded) - 3

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Appendix B – Acquisition of 012 Smile

On March 3, 2011, the Company acquired 012 Smile. The fair values of assets acquired and liabilities assumed were as follows (see also note 5):

	NIS in millions
Current assets	295
Deferred expenses – right of use	282
Property and equipment	159
Intangible assets	408
Goodwill	494
Other non-current assets	21
Short term bank borrowings and current maturities of long-term borrowings	(201)
Accounts payables and provisions	(229)
Long term bank borrowings	(579)
	650
Less: Advance payment in respect of the acquisition of 012 Smile	(30)
Less: cash acquired	(23)
Net cash used in the acquisition of 012 Smile in 2011	597

A - 11

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 and under the 012 Smile™ brand. The address of the Company's Principal Executive Offices 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., completed the acquisition of 44,850,000 ordinary shares of the Company from Scailex Corporation Ltd. and the acquisition of 3,200,000 ordinary shares of the Company from Leumi Partners Ltd. As a result, S.B. Israel Telecom Ltd. became the Company's principal shareholder.

Until January 29, 2013, the ultimate parent company was Suny Electronics Ltd., since it is the parent company of Scailex Corporation Ltd, which was the Company's parent company since October 28, 2009 ("Scailex", "Parent group").

On March 3, 2011, the Company completed the acquisition of 012 Smile Telecom Ltd. ("012 Smile"), from Merhav-Ampal Energy Ltd. 012 Smile provides international long distance services, internet services and local telecommunication fixed-line services (including telephony services using Voice Over Broadband ("VOB")) under the 012 Smile brand. See also note 5.

These consolidated financial statements of the Company as of December 31, 2012, 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).

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"). The CEO considers the business from two operating segments, as follows (see note 6):

(1) Cellular segment

The cellular segment includes cellular communication services: airtime and content;

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

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL (continued)

b. Operating segments (continued)

(2) Fixed-line segment

The fixed-line segment includes: (1) Internet services ("ISP") that provides access to the internet 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") (2) Transmission services and Primary Rate Interface ("PRI"); (3) 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, modems, data cards, domestic routers, and related equipment.

Each segment is divided into services and equipment relating to revenues and 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 share based compensation expenses) and impairment charges ("Adjusted EBITDA"). The CODM does not examine assets or liabilities for those segments separately, therefore they are not presented in note 6 segment information. The usage of the term "Adjusted EBITDA" is to highlight the fact that the 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.

c. Cellular segment licenses

The Company operates under a license granted by the Israeli Ministry of Communications ("MOC") to operate a cellular telephone network. The license is valid through 2022. The Company is entitled to request an extension of the license for an additional period of six years and then renewal for one or more additional six year periods. Should the license not be renewed, the new license-holder is obliged to purchase the communications network and all the rights and obligations of the subscribers for a fair price, as agreed between the parties or as determined by an arbitrator. Under the terms of the license, the Company provided a bank guarantee in NIS equivalent of USD 10 million to the State of Israel to secure the Company's adherence to the terms of the license.

The Company was also granted a license from the Israeli Civil Administration, to provide mobile services to the Israeli populated areas in the West Bank. The license is effective until April 7, 2013. The Company has requested an extension to this license and believes that the extension will be granted. The Company provided a bank guarantee in NIS equivalent of USD 0.5 million to the State of Israel to secure the Company's adherence to the terms of the license. See note 2(g)(1) for the accounting policy in respect of the Group's licenses.

d. Fixed-line segment licenses

ISP licenses:

The Company received special licenses granted by the MOC, allowing the Company through its own facilities to provide internet access to land-line network customers: Internet Service Provider (ISP) in Israel and in the West Bank. The licenses are valid until April 2013. The Company has requested extensions to these licenses and believes that the extensions will be granted.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL (continued)

d. Fixed-line segment licenses (continued)

012 Smile also holds an ISP license to supply internet access and Wi-Fi services which is valid until December 2014. The license may be extended for various periods. The Group believes that it will be able to receive an extension to this license upon request.

ILD license:

012 Smile also holds a license for the provision of International Long Distance services (ILD). The license is valid until December 2030, with possible extensions for one or more successive periods of ten years.

Land-line VOB and DFL licenses:

Partner Land-line Communication Solutions - Limited Partnership, which is fully owned by the Company, holds a license for the provision of Domestic Fixed-line (DFL) telecommunications services including the right to offer VOB services using the infrastructure of Bezeq The Israel Telecommunication corp. Ltd and HOT- Telecommunication Systems Ltd (leading fixed communication infrastructure services providers in Israel) to access customers and to provide them with land-line telephony service and the provision of transmission and data communications services that were previously provided for under a transmission license that was granted in July 2006. The license expires 20 years after it was granted, but may be extended by the MOC for successive periods of 10 years provided that the licensee has complied with the terms of the license and has acted consistently for the enhancement of telecom services. The Company deposited a bank guarantee in the amount of NIS 10 million with the MOC upon receiving the license which shall be used to secure the Company's obligations under the License. In addition it holds a domestic land-line license to provide land-line services to the Israeli populated areas in the West Bank. The last license is effective until March 2019.

012 Telecom Ltd., which is a wholly-owned subsidiary of 012 Smile, holds a license for the provision of stationary domestic telecommunication services including provision of domestic telecommunication services using VOB technology.

The license was granted for a period of 20 years since December 2005. At the end of the license period, the MOC may extend the license for one or more successive periods of ten years.

Endpoint Network Services licenses:

The Company holds a special license granted by the MOC allowing it 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 received a license to supply, install, operate and maintain all types of endpoint network equipment, including central switchboards, telephone cables, connection closets, etc. The license is valid until December 2014

and may be extended for various periods. The Group believes that it will be able to receive an extension to this license upon request.

012 Smile provided the State of Israel with an unconditional bank guarantee of NIS 23 million to ensure compliance with the provisions of the VOB and DFL license and the international telecommunications services license. The guarantee will be in effect for a period ending two years after the end of the licenses period, or until the date on which the Company fulfills all of its obligations under the licenses.

See note 2(g)(1) for the accounting policy in respect of the Group's licenses.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL (continued)

e. Main recent regulatory developments

(1) During 2012 the Ministry of Communications awarded UMTS frequencies to two additional operators: MIRS and Golan Telecom.

In addition, three Virtual Network Operators (“MVNO”) have launched of their operations: Alon Cellular Ltd. and Home Cellular Ltd. in 2012, and Rami Levy in 2011, following reception of MVNO licenses from the Ministry of Communications.

(2) See note 13(a)(1) in respect of reduction in commitment exit fees.

(3) See information in respect of royalty payments in note 18.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the financial statements

(1) Statement of compliance

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

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

(2) Use of estimates and judgments

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

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the financial statements (continued)

(3) Basis of measurement

The consolidated financial statements have been prepared on the basis of the historical cost convention except for the following assets and liabilities:

(a) Derivative financial instruments are measured and presented at their fair values through profit or loss.
(b) Property and equipment were revalued to the fair value on the transition date to IFRS as deemed cost, see note 2(f).
(c) Assets held and liability for employee rights upon retirement, net, is valued based on the present value of the defined benefit obligation less fair value of the plan assets, see note 17.
(d) Until December 31, 2003 the Israeli economy was considered hyperinflational according to IFRS, therefore the value of non-monetary assets, licenses and equity items have been adjusted for changes in the general purchasing power of the Israeli currency – NIS, based upon changes in the Israeli Consumer Price Index ("CPI") until December 31, 2003.
(e) Identifiable assets acquired and liabilities and contingent liabilities assumed upon the business combination of acquiring 012 Smile were initially recognized at fair value as of the acquisition date March 3, 2011.
(f) Goodwill was initially measured as the excess of the aggregate of the consideration transferred over the net fair value of identifiable assets acquired, liabilities and contingent liabilities assumed.

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

The NIS figures at December 31, 2012 and for the period then ended have been translated into dollars using the representative exchange rate of the dollar at December 31, 2012 (USD 1 = NIS 3.733). The translation was made solely for convenience, is supplementary information, and is distinguished from the financial statements. The translated dollar figures should not be construed as a representation that the Israeli currency amounts actually represent, or could be converted into, dollars.

b. Foreign currency translations

(1) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company and its subsidiaries and partnerships operate (the "functional currency"). The consolidated financial statements are measured and presented in New Israeli Shekels ("NIS"), which is the Group's functional and presentation currency. The amounts presented in NIS millions are rounded to the nearest NIS million.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency 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.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and partnerships.

Subsidiaries and partnerships are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. Subsidiaries and partnerships are fully consolidated from the date on which control is transferred to the Company.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, and the liabilities incurred to the former owners of the acquiree. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition- related costs are expensed as incurred.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

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
Partner Net Ltd.
012 Mobile GP Ltd.
Golden Lines 012 Telecommunication Services 2001 Ltd.
012 Mobile Limited Partnership

012 Global, Inc. is a consolidated company over which the Group has the power to govern its financial and operating policies.

d. Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer (regarded as Chief Operating Decision-Maker, CODM) who is responsible for allocating resources and assessing performance of the operating segments. The segments identified are: (1) cellular business and; (2) fixed-line business. See also note 6.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Inventories

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

f. Property and equipment

On January 1, 2008, the transition date to IFRS, the Company adopted an exemption provided in IFRS1 allowing the measurement of the Company's property and equipment as of the transition date to IFRS at fair value, and to use this value as its deemed cost as of that date. The deemed cost was based upon an appraisal, performed by management with the assistance of independent appraisers.

Subsequent purchases of property and equipment are initially stated at cost.

Property and equipment assets that were acquired in a business combination were recognized at fair value as of the acquisition date (See note 5).

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

Changes in the obligation to dismantle and remove assets on sites and to restore the 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 (r) below.

Property and equipment is presented less accumulated depreciation, and accumulated impairment losses.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Property and equipment (continued)

Depreciation is calculated using the straight-line method over the estimated useful economic 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 economic life (5-10 years) of the improvements, whichever is shorter.

On October 25, 2010 the Company signed an agreement with LM Ericsson Israel Ltd. ("Ericsson") for the upgrade of its existing networks and the deployment of a fourth generation network in Israel (the "Ericsson Agreement"). The Ericsson 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 the networks, including enhancement of the Company's abilities with respect to the cellular and fixed-line ISP services it provides. The term of the Ericsson Agreement is until December 31, 2014, whereas the replacement of the Company's switches and radio equipment is scheduled to be carried out by the end of the year 2013. The total net amount that the Company will be required to pay, is approximately USD 100 million (approximately NIS 360(*) million). The amount relating to support and maintenance is approximately USD 12 million (approximately NIS 43(*) million). The transaction resulted in accelerated depreciation of the replaced equipment, throughout the replacement period. The Company recorded a depreciation acceleration of NIS 16 million in the fourth quarter of 2010, and of NIS 67 million in 2011. The effect of depreciation acceleration in 2012 was immaterial. As of December 31, 2011, and 2012, the depreciated cost of the replaced equipment is approximately NIS 30 million, and NIS 4 million, respectively.

(*) The transaction is denominated in USD and translated above into NIS using the exchange rate as of the transaction date October 25, 2010 (1 USD = 3.599 NIS).

The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Accordingly, the Company adjusted the useful lives of some assets. The effect of such adjustment on the statement of income for 2011 and 2012 was immaterial, other than the depreciation acceleration of the replaced equipment described above.

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 (j) below).

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Licenses and other intangible assets

(1) Licenses:

(a) The licenses to operate cellular communication services are recognized at cost, adjusted for changes in the CPI until December 31, 2003 (See a (3)(d) above), and are amortized using the straight line method over their contractual period –the period ending in 2022. Borrowing costs which served to finance the license fee - incurred until the commencement of utilization of the license - were capitalized to cost of the license.

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

(c) 012 Smile and its subsidiaries have been granted various licenses from the Ministry of Communications for the provision of communication services. The licenses to operate international telephony services and local telephony services are recognized at fair value in a business combination as of the acquisition date of 012 Smile (see note 5), and are amortized using the straight line method over their remaining contractual period: License for international telecommunications services until 2030, and the VOB and DFL license until 2025.

The amortization periods exclude any ungranted future extensions. The amortization expenses are included in the cost of revenues. The other licenses of the Group were received with no significant costs. See description of the licenses in note 1(c), (d).

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

g. 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.

Computer software systems that were acquired in a business combination were recognized at fair value as of the acquisition date of 012 Smile (See note 5)

Costs associated with maintaining computer software are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met: (a) it is technically feasible to complete the software product so that it will be available for use; (b) management intends to complete the software product and use it; (c) there is an ability to use the software product; (d) it can be demonstrated how the software product will generate probable future economic benefits; (e) adequate technical, financial and other resources to complete the development and to use the software product are available; and
(f) the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of software products include the software development employee costs. Other development expenditures that do not meet these criteria are recognized as an expenses as incurred.

Computer software costs are amortized over their estimated useful lives (3 to 7 years) using the straight-line method.

(3) Customer relationships:

The Company has recognized as intangible assets customer relationships that were acquired in business combinations 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 14(a) in respect of impairment charges recorded in 2011.

(4) Trade name:

Trade name was acquired in a business combination and was recognized at fair value in a business combination as of the acquisition date of 012 Smile (See note 5). The trade name is amortized to selling and marketing expenses over its estimated useful economic life (12 years) based on the straight line method. See note 11 in respect of impairment charges recorded in 2011.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Licenses and other intangible assets (continued)

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

Costs to acquire or retain postpaid mobile telecommunication subscribers, and costs to acquire ISP and VOB subscribers, pursuant to a contract with a commitment period and early termination penalties, are capitalized to intangible assets according to IAS 38, 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.

The cost of the subsidized handset less the subscriber's payment towards the handset, and sales commissions, are included in the subscriber acquisition and retention costs (see also (s)(2) below). The capitalized costs are amortized over their expected useful economic life which is not longer than their minimum enforceable period, which is generally a period of 18 months, using the straight-line method.

Capitalized ISP and VOB subscriber acquisition costs (mainly sales commissions) are amortized over their expected useful economic life which is not longer than their minimum enforceable period, which is generally a period of 18 or 36 months, using the straight-line method amortization.

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. See also note 2(j) in respect of impairments of SARC assets recorded.

h. Right of use (ROU) of international fiber optic cables

Right of use (ROU) of international fiber optic cables (see note 12) was acquired in a business combination and was recognized at fair value as of the acquisition of 012 Smile (see note 5), 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 the framework and until 2027 (including expected extension periods). See also notes 18(5), and see also note 12 in respect of impairment charges recorded in 2011.

i. Goodwill

Goodwill acquired in a business combination (see note 5) and 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 each of the Cash Generating Units ("CGUs"), or group of CGUs that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity which the goodwill is monitored for internal management purposes.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

i. 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. Any impairment is recognized immediately as an expense and is not subsequently reversed.

See note 13(b) in respect of impairment charges recorded in 2011.

j. 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 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. 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.

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.

See notes 11, 12 and 13(a) in respect of impairment charges recorded in 2011.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

k. 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. The classification depends on the purpose for which the financial instruments were acquired or assumed. Management determines the classification of its financial instruments at initial recognition.

1. Financial instruments at fair value through profit or loss category:

This category includes embedded derivative financial instruments and freestanding derivative financial instruments. These derivatives do not qualify for hedge accounting. Instruments in this category are classified as current if they are expected to mature within 12 months after the end of the reporting period; otherwise they are classified as non-current. Gains or losses arising from changes in the fair value of these derivative financial instruments are presented in the income statement within "finance costs, net" in the period in which they arise.

2. Loans and receivables category:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for arrangements longer than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables are recognized initially at fair value and subsequently measured at amortized costs using the effective interest method, less any impairment loss. The Group's loans and receivables comprise "trade receivables" and "other receivables" and "cash and cash equivalents" in the statement of financial position. See also note (s)(3) below regarding revenue recognition from non-current credit arrangements.

Ordinary purchases and sales of financial assets are carried at the settlement date, the date on which the asset is delivered to or by the Group.
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 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 future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement.

3. Financial liabilities and borrowings at amortized cost category:

Financial liabilities at amortized cost are non-derivative financial instruments with fixed or determinable payment. They are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current liabilities. Financial liabilities at amortized cost are recognized initially at fair value, net of transaction costs, and subsequently measured at amortized costs using the effective interest method. The Group's financial liabilities and borrowings at amortized cost category include notes payable, bank borrowings, credit facilities, and liability in respect of finance lease and accounts payables.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Cash and Cash equivalents

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

m. Trade Receivables

Trade receivables are recognized initially at fair value. Non-current receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment (allowance for doubtful accounts). The amount of the allowance is determined as a percentage of specific debts doubtful of collection, and taking into consideration the likelihood of recoverability of accounts receivable based on the age of the balances, the Group's historical write-off experience net of recoveries, changes in the credit worthiness of the Group's customers, and collection trends. The trade receivables are periodically reviewed for impairment.

The Company factors trade receivables resulting from sales of handsets by credit cards. The factoring is executed through a clearing company, on a non-recourse basis. The factoring of accounts receivable is recorded by the Company as a sales transaction, and derecognized under the provisions of IAS 39 financial instruments: recognition, and measurement. The results of the factoring transaction are charged to financial income and expenses on the settlement date.

n. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. Trade payables are recognized initially at fair value, and subsequently measured at amortized cost.

o. 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.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

p. 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 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 defined benefit obligation is recognized in the statement of financial position at the present value of the defined benefit obligation at end of the reporting period less the fair values of plan assets. With respect to defined benefit plans for a subsidiary the fair value of the plan assets are recognized and presented in the statement of financial position less the present value of the defined benefit obligation at the end of the reporting period.

The defined benefit obligation is calculated annually using the projected unit credit method. The measuring of liability and plan assets are based on calculation made by an external actuarial expert. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows (after taking into account the expected rate of salary increases and other actuarial assumptions) using interest rates of Israeli Government bonds that are denominated in the currency in which the benefits will be paid (NIS) and that have terms to maturity approximating the terms of the related liability, since the Group's management is in the opinion that Israel does not have a deep market for high-quality corporate bonds.

Actuarial gains and losses resulting from changes in actuarial valuation and differences between past assumptions and actual results are charged or credited to equity in other comprehensive income in the period in which they arise. Interest costs in respect of the defined benefit plan obligation and the expected returns on the plan assets are charged or credited to finance costs.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

p. 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. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(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.

q. Share based payment

The Group operates a number of equity-settled, share-based compensation plans, 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. The total amount expensed is recognized over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each reporting period, the 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.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

r. 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.

(3) Provisions for handset warranties include obligations to customers in respect of handsets 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.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

s. 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.

For broadband and data services, revenue is earned on a fixed monthly fee basis for the provision of services. Broadband and data services include monthly fees collected for the provision of dedicated and dial-up access at various speeds and bandwidths, and also web and server hosting. These fees are recognized as services are provided. The Group records payments received in advance for services and services to be provided under contractual agreements, such as internet broadband, 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.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Revenues (continued)

(2) Revenues from sales of equipment:

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

Some sales of handsets with accompanying services constitute a revenue arrangement with multiple deliverables. Accordingly, consideration received is allocated to each deliverable based on the relative fair value of the individual element. The revenue from sales of handsets is recognized as equipment revenues upon the delivery of the equipment to the subscriber when all revenue recognition criteria are met. The Group determines the fair value of the individual elements based on prices at which the deliverable is regularly sold on a stand-alone basis.

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

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Leases

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

Leases are classified as finance leases where the Group, as a lessee, has substantially all the risks and rewards of ownership. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

u. Advertising expenses

Advertising expenses are charged to the statement of income as incurred. Advertising expenses for the years ended December 31, 2010, 2011 and 2012 totaled NIS 140 million, NIS 78 million and NIS 60 million, respectively.

v. 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.

The Group recognized deferred tax, using the liability method, on temporary differences arising between the carrying amounts in the consolidated financial statements of assets and liabilities and their tax bases.

Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets are presented as non-current, see also note 25.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

w. Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's consolidated financial statements in the period in which the dividends are approved by the Company's board of directors, excluding distributions that are pending regulatory approval. See also note 21.

x. 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).

NOTE 3 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

(a) The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning January 1, 2012

(1) In October 2010, an amendment to IFRS 7 Financial instruments: Disclosures was published. The amendment broadens the disclosures requirement regarding financial assets that were transferred to other parties, yet continue to be included in the statement of financial position; and regarding related financial liabilities, including the relation between the assets and the liabilities. In addition the amendment broadens the disclosure requirements regarding derecognized financial assets in respect of which the entity remained exposed to certain risks and rewards. The Group adopted the amendment as of January 1, 2012. The implementation of the amendment did not have a material impact on the consolidated financial statements.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (continued)

(b) The following new standards, amendments to standards or interpretations have been issued, but are not effective for the financial year beginning 1 January 2012, and have not been early adopted

(1) IFRS 9 Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the Group's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The standard is not applicable until January 1, 2015 but is available for early adoption. The Group is yet to assess the full impact of the standard.

(2) IFRS 13, Fair Value Measurement. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. The Group will implement the standard for annual period beginning January 1, 2013. IFRS 13 will be implemented prospectively. Disclosures requirements are not required for periods preceding implementation date. The initial implementation of the standard is not expected to have a material effect on the Company's financial statements.

(3) In June 2011, the IASB issued an amendment to IAS 19, Employee benefits. The amendment eliminates the corridor approach, and requires companies to recognize all actuarial gains and losses in OCI as they occur; and to immediately recognize all past service costs; and to replace interest costs and expected returns on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (assets). The Group will adopt the amendment annual periods beginning on or after January 1, 2013. The initial implementation of the amendment is not expected to have a material effect on the Company's financial statements.

(4) In December 2011 the IASB issued amendments to IFRS 7 Disclosures—Offsetting Financial Assets and Financial Liabilities, and amendments to IAS 32 Financial instruments: Presentation on offsetting financial assets and financial liabilities. The amendments clarify the criteria of offsetting financial assets and financial liabilities, and amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities, on the entity's financial position. The group will implement the amendment to IAS 32 retrospectively for annual period beginning on January 1, 2014. The Group will implement the amendment to IFRS 7 retrospectively for annual period beginning on January 1, 2013. The initial implementation of the amendments is not expected to have a material effect on the Company's financial statements.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

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) Assessing the useful economic 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 the end of each reporting period. See also note 2(f) and note 2(g).

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

For the purpose of impairment testing of assets with finite useful lives the assets are grouped at the lowest level group of assets that generates inflows that are largely independent of inflows from other assets (CGUs). The Group's management 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 from the continuing use of the CGU and also to choose a suitable discount rate which represents market estimates for the time value of money and the specific risks relating to the CGU. Determining the estimates of the future cash flows is based on management past experience and management best estimate for the economic conditions that will exist over the remaining useful economic life of the CGU. See also note 2(j).

The Group recorded in 2011 an impairment charge to certain assets in an amount of NIS 262 million, based on the key assumptions described in note 13.

The Group is required to determine at the end of each reporting period whether there is any indication that an asset may be impaired. For this purpose, the Group considered external and internal sources of information to determine whether events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Group determined that as of December 31, 2012 no indicators for impairment exist, see also note 13.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

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 of goodwill for annual impairment tests:

The recoverable amounts of CGUs to which goodwill has been allocated have been determined based on the value-in-use calculations. These calculations require management to make estimates of the projected future cash flows from the continuing use of the CGU and also to choose a suitable discount rate which represents market estimates for the time value of money and the specific risks relating to the CGU. Determining the estimates of the future cash flows is based on management past experience and management best estimate for the economic conditions.

The Group recorded in 2011 an impairment charge to goodwill in an amount of NIS 87 million, based on the key assumptions described in note 13.

An impairment test as of December 31, 2012 determined that no additional goodwill impairment exists as of December 31, 2012, see also note 13 and 2(i). For the purpose of the goodwill impairment test as of December 31, 2012, 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:

Growth rate	(negative 0.2%)
After-tax discount rate	11.7%
Pre-tax discount rate	15.7%

The impairment test as of December 31, 2012 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.
Sensitivity Analysis:

Sensitivity analysis was performed for a change of the after-tax discount rate within the range of ± 10% multiplied by the variable 11.7% (10.53% to 12.87%), assuming all other variables constant. Sensitivity analysis was also performed for a change of the terminal permanent growth rate within the range of ± 1% of the variable minus 0.2% (minus 1.2% to 0.8%), assuming all other variables constant. Results showed that no impairment charge is required.

(4) 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. The amount of the allowance is determined as a percentage of specific debts doubtful of collection, and taking into consideration the likelihood of recoverability of accounts receivable based on the age of the balances, the Group's historical write-off experience net of recoveries, changes in the credit worthiness of the Group's customers, and collection trends. The trade receivables are periodically reviewed for impairment.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

a. Critical accounting estimates and assumptions (continued)

(5) 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 tax laws 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 note 2(v).

(6) Business combinations – assessing purchase price allocations:

The Group is required to allocate the purchase price of entities and activities acquired in business combinations on the basis of the fair value of acquired assets and liabilities assumed. The Group uses external and internal valuations to determine the fair value. Goodwill 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 valuations include management estimations and assumptions for future cash flow projections from the acquired business and selection of models to compute the fair value of the acquired components and their depreciation periods. See also note 5.

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) Estimating service revenues earned but not yet billed:

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

(3) Sales of equipment with accompanying services:

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(s)(2).

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

(4) Deferred tax assets:

Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is probable that sufficient and suitable taxable profits will be available in the future, against which the reversal of the temporary differences can be deducted, taking into account any legal restrictions on the length of loss-carryforward period. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, loss-carryforward periods, and tax planning strategies. See also note 25.

(5) Determining CGUs for impairment tests of assets with finite useful lives:

For the purposes on impairment tests on assets with finite useful lives, 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, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. The Group uses judgment in determining which inflows generated are largely independent of those from other assets or groups of assets, thus determining the CGU to which an asset belongs.

In the beginning of 2012, management undertook a program to integrate the fixed-line segment structure. As a result the reporting, monitoring, measuring results of operations and allocating resources structures were integrated, and the inflows of the VOB/ISP operations of Partner were no longer considered independent and separable from the inflows of the VOB/ISP operations of 012 Smile, since management allocated sale efforts between these operations, based on marketing requirements, considering the products to be substitutes. Since the inflows of these operations are inter-dependent, management has determined these operations together represent the smallest identifiable group of assets which generate largely independent cash inflows, and therefore represent a single VOB/ISP CGU.

(6) Determining CGUs for impairment tests of goodwill:

For the purpose of goodwill impairment testing, the goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination. Such allocation represents the lowest level at which the goodwill is monitored for internal management purposes and is not larger than an operating segment.

For the purpose of impairment testing, the Group made judgments to determine the group of CGUs to which goodwill is allocated that represent the lowest level within the Group at which goodwill is monitored by management for internal reporting. In the beginning of 2012 management undertook a program to integrate the fixed-line segment structure that included aggregating all the fixed-line activities of the Group under the responsibility of Head of Fixed-Line Division. As a result of this integration the reporting and monitoring structure was aligned with the fixed-line segment, and goodwill, in an amount of NIS 407 million, is now allocated to a single group of CGUs which constitute all the operations of the fixed-line segment. See also note 13.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 – ACQUISITION OF 012 SMILE

a. Transaction details

On March 3, 2011, (the "acquisition date") the Company completed the acquisition of 012 Smile Telecom Ltd., from Merhav-Ampal Energy Ltd. (the "Seller"), (the "Transaction").

012 Smile, a private Israeli company, is a leading provider of communication services in Israel, which provides a wide range of broadband and traditional voice services. 012 Smile's broadband services include broadband Internet access (ISP) with a suite of value-added services, specialized data services and server hosting, as well as new innovative services such as local telephony via voice over broadband (VOB) and a WiFi network of hotspots across Israel. Traditional voice services include outgoing and incoming international telephony, hubbing, roaming and signaling and calling card services. 012 Smile services residential and business customers, as well as Israeli cellular operators and international communication services providers through its integrated multipurpose network. 012 Smile's integrated multipurpose network allows it to provide services to almost all of the homes and businesses in Israel.

The Company has acquired all of the issued and outstanding shares of 012 Smile and therefore is the controlling party of 012 Smile, which will allow it to become a leading comprehensive communications group, expanding its services and products.

The consolidated financial statements include 012 Smile's results of operations, changes in equity and cash flows since the acquisition date. However, since acquisition date a structural separation between the Company and 012 Smile was required to be kept in place for regulatory reasons until December 14, 2011 (see also note 1 (b)).

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. The Company had previously paid NIS 30 million as a deposit for the acquisition. The remaining NIS 620 million was funded by cash on hand of NIS 158 million and notes payable of NIS 462 million. As part of the Transaction, 012 Smile undertook a liability to the Company by an amount similar to the abovementioned loan. As part of the Transaction, the Company also guaranteed the bank loans and other bank guarantees, which were provided to 012 Smile, in a total amount of approximately NIS 800 million. For information about developments occurred after the acquisition date in respect of 012 Smile's indebtedness see notes 15.

The acquisition is a business combination transaction and is accounted for using the purchase method. Under the purchase method, assets and liabilities are recorded at their fair values on the acquisition date and the total purchase price is allocated to the tangible and intangible assets acquired and liabilities and contingent liabilities assumed. The excess of the purchase price over the fair value of the identifiable net assets acquired is recorded as goodwill.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 – ACQUISITION OF 012 SMILE (continued)

The following table summarizes the consideration paid for 012 Smile, and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

	March 3, 2011 NIS in millions
Current assets	295
Deferred expenses – right of use	282
Property and equipment	159
Intangible assets	408
Goodwill	494
Other non-current assets	21
Short term bank borrowings and current maturities of long-term borrowings	(201)
Accounts payables and provisions	(229)
Long term bank borrowings	(579)
	650

The fair value of the trade receivables purchased was NIS 225 million. The book value was NIS 226 million less allowance for doubtful debts of NIS 1 million.

Intangible assets include, among other assets: trade name that was valued using the "Relief from Royalty" method, an approach under which fair value is estimated to be the present value of royalties saved; and customer relationships that were valued using the "Multi-Period Excess Earning" method, an approach under which the Company estimates the present value of expected cash flows resulting from the existing customer relationships. See note 2(g) for the amortization method and expected useful lives of intangible assets acquired in the business combination.

Goodwill in the amount of NIS 494 million arisen upon the acquisition date of 012 Smile on March 3, 2011 was recognized as 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 is allocated to the fixed-line segment. The goodwill represents assets and earnings that do not form separable identifiable assets under IFRS3, but are expected to contribute to the future results of the fixed-line segment: reduction in costs through synergies and economies of scale expected from combining the operations of 012 Smile and the Company; market knowledge; and highly skilled workforce. The total amount of goodwill that was expected to be deductible for income tax purposes as of the acquisition date is NIS 212 million. See also note 13.

Regarding impairment charges recorded in 2011, see notes 11, 12 and 13.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – SEGMENT INFORMATION

	New Israeli Shekels Year ended December 31, 2012 In millions			
	Cellular segment	Fixed-line segment	Elimination	Consolidated
Segment revenue - Services	3,564	1,076		4,640
Inter-segment revenue - Services	28	134	(162)	
Segment revenue - Equipment	896	36		932
Total revenues	4,488	1,246	(162)	5,572
Segment cost of revenues - Services	2,351	861		3,212
Inter-segment cost of revenues- Services	134	28	(162)	
Segment cost of revenues - Equipment	787	32		819
Cost of revenues	3,272	921	(162)	4,031
Gross profit	1,216	325		1,541
Operating expenses	584	203		787
Other income, net	110	1		111
Operating profit	742	123		865
Adjustments to presentation of Adjusted EBITDA				
–Depreciation and amortization	562	164		726
–Other (1)	10	1		11
Adjusted EBITDA (2)	1,314	288		1,602
Reconciliation of Adjusted EBITDA to profit before income tax				
- Depreciation and amortization				726
- Finance costs, net				234
- Other (1)				11
Profit before income tax				631

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – SEGMENT INFORMATION (continued)

	New Israeli Shekels Year ended December 31, 2011 In millions			
	Cellular segment	Fixed-line segment	Elimination	Consolidated
Segment revenue - Services	4,219	1,005		5,224
Inter-segment revenue - Services	29	122	(151)	
Segment revenue - Equipment	1,748	26		1,774
Total revenues	5,996	1,153	(151)	6,998
Segment cost of revenues – Services	2,601	969		3,570
Inter-segment cost of revenues- Services	122	29	(151)	
Segment cost of revenues - Equipment	1,379	29		1,408
Cost of revenues	4,102	*1,027	(151)	4,978
Gross profit	1,894	126		2,020
Operating expenses	712	*290		1,002
Impairment of goodwill		87		87
Other income, net	105			105
Operating profit (loss)	1,287	(251)		1,036
Adjustments to presentation of Adjusted EBITDA				
– Depreciation and amortization	590	182		772
– Impairment of intangible assets, deferred expenses and goodwill (see note 13)		349		349
– Other (1)	19	2		21
Adjusted EBITDA (2)	1,896	282		2,178
Reconciliation of Adjusted EBITDA to profit before income tax				
- Depreciation and amortization				(772)
- Impairment of intangible assets, deferred expenses and goodwill				(349)
- Finance costs, net				(294)
- Other (1)				(21)
Profit before income tax				742

* Including impairment charges, see note 13.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 – SEGMENT INFORMATION (continued)

	New Israeli Shekels Year ended December 31, 2010 In millions			
	Cellular segment	Fixed-line segment	Elimination	Consolidated
Total segment revenue - Services	5,555	107		5,662
Inter-segment revenue - Services	20	57	(77)	
Segment revenue - Equipment	987	25		1,012
Total revenues	6,562	189	(77)	6,674
Segment cost of revenues – Services	3,174	133		3,307
Inter-segment cost of revenues- Services	57	20	(77)	
Segment cost of revenues - Equipment	751	35		786
Cost of revenues	3,982	188	(77)	4,093
Gross profit	2,580	1		2,581
Operating expenses	760	25		785
Other income, net	64			64
Operating profit (loss)	1,884	(24)		1,860
Adjustments to presentation of Adjusted EBITDA				
–Depreciation and amortization	633	36		669
–Impairment of intangible assets	16			16
–Other (1)	25			25
Adjusted EBITDA (2)	2,558	12		2,570
Reconciliation of Adjusted EBITDA to profit before income tax				
- Depreciation and amortization				(669)
- Impairment of intangible assets				(16)
- Finance costs, net				(181)
- Other (1)				(25)
Profit before income tax				1,679

(1) Mainly employee share based compensation expenses.

(2) Adjusted EBITDA as reviewed by the CODM, represents Earnings Before Interest (finance costs, net), Taxes, Depreciation, Amortization (including amortization of intangible assets, deferred expenses-right of use, and share based compensation expenses) and impairment charges, as a measure of segment profit. Adjusted EBITDA is not a financial measure under IFRS and may not be comparable to other similarly titled measures in 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 employee share based compensation expenses; it is fully comparable to EBITDA information which has been previously provided for prior periods.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 – 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. The Group uses freestanding derivative instruments in order to partially cover its exposure to foreign currency exchange rates. The freestanding derivative instruments are used for economic risk management that does not qualify for hedge accounting under IAS 39. The Group does not hold or issue derivative financial instruments for trading purposes.

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

The Group enters into foreign currency freestanding derivative transactions in order to protect itself against the risk that the eventual Dollar and Euro cash flows resulting from the anticipated payments, mainly in respect of trade receivables and trade payables denominated in foreign currencies are affected by changes in foreign currencies exchange rates.

Price risk

The Group is not exposed to price risk since it does not hold investments in securities.

Fair value risk due to interest rate changes

The fair value risk due to interest rate changes arises from non-current borrowings and notes payable bearing fixed interest rates. Since they are measured and presented in the statement of financial position at amortized cost, changes in the interest rate do not affect the financial statements nor cash flows in respect of the notes payable. The Group does not enter into interest risk hedging transactions.

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 transaction in 2011 and 2012.

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 2012 in respect of the abovementioned financial instruments would have resulted in an increase (decrease) in interest expenses of NIS 12 million. The Group does not enter into interest rate hedging transactions.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

a. Financial risk factors (continued)

2. Market risks (continued)

(a) Description of market risks (continued)

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. As part of its risk management policy the Group enters into forward exchange contracts to partially mitigate the exposure to fluctuations in foreign exchange rates (mainly USD and EURO).

(b) Analysis of linkage terms of financial instruments balances

The Group's exposure to foreign currency risk and CPI was based on the following financial instruments:

	December 31, 2012				
	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	3			545	548
Trade receivables	8	47		1,342	1,397
Other receivables				20	20
Derivative financial instruments (*)	1				1
Non- current assets					
Trade receivables				509	509
Total assets	12	47		2,416	2,475
Current liabilities					
Current maturities of notes payable and of other liabilities and current borrowings			120	186	306
Trade payables	110	61		695	866
Parent group - trade	45			25	70

Payables in respect of employees and other payables (mainly institutions)	1		2	108	111
Derivative financial instruments (*)	14				14
Non- current liabilities					
Notes payable			1,046	1,275	2,321
Bank borrowings			1,007	726	1,733
Total liabilities	170	61	2,175	3,015	5,421

(*) Relates to freestanding forward derivative financial instruments and embedded derivative financial instruments.

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 – 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, 2011				
	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	2	1		529	532
Trade receivables	25	15		1,478	1,518
Other receivables				15	15
Derivative financial instruments (*)	24				24
Non- current assets					
Trade receivables				856	856
Total assets	51	16		2,878	2,945
Current liabilities					
Current maturities of notes payable and of other liabilities and current borrowings			424	74	498
Trade payables	139	66		708	913
Parent group - trade	87			55	142
Payables in respect of employees and other payables (mainly institutions)	2		5	207	214
Derivative financial instruments (*)	3				3
Non- current liabilities					
Notes payable			1,148	1,457	2,605
Bank borrowings			992	1,076	2,068
Other non-current liabilities	1				1
Total liabilities	232	66	2,569	3,577	6,444

(*) Relates to freestanding forward derivative financial instruments and embedded derivative financial instruments.

A - 45

PARTNER COMMUNICATIONS COMPANY LTD.

(An Israeli Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

a. Financial risk factors (continued)

2. Market risks (continued)

(c) Sensitivity analysis

A change of the CPI as at December 31, 2010, 2011 and 2012 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Change	Equity	Profit
		New Israeli Shekels In millions	
December 31, 2010			
Increase in the CPI of	2.0%	(40)	(40)
Decrease in the CPI of	(2.0)%	40	40
December 31, 2011			
Increase in the CPI of	2.0%	(51)	(51)
Decrease in the CPI of	(2.0)%	51	51
December 31, 2012			
Increase in the CPI of	2.0%	(44)	(44)
Decrease in the CPI of	(2.0)%	44	44

A change of the USD exchange rate as at December 31, 2010, 2011 and 2012 would have increased (decreased) equity and profit by the amounts shown below. This analysis is based on contractual balances of assets and liabilities denominated or linked to USD, assuming that all other variables remain constant.

	Change	Equity	Profit
		New Israeli Shekels In millions	
December 31, 2010			
Increase in the USD of	5.0%	1	1
Decrease in the USD of	(5.0)%	(1)	(1)
December 31, 2011			
Increase in the USD of	5.0%	6	6
Decrease in the USD of	(5.0)%	(6)	(6)