PARTNER COMMUNICATIONS CO LTD
Form 20-F
March 14, 2016

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
ANNUAL REPORT
FILED PURSUANT TO SECTION 12, 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

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

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

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from ___________ to ___________

OR

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

Date of event requiring this shell company report ___________

Commission file number 1-14968

PARTNER COMMUNICATIONS COMPANY LTD.
(Exact Name of Registrant as Specified in its Charter)

ISRAEL
(Jurisdiction of Incorporation or Organization)

8 AMAL STREET
AFEQ INDUSTRIAL PARK
ROSH-HA'AYIN 48103
ISRAEL
(Address of Principal Executive Offices)

Nomi Sandhaus
ExecutiveOffices@partner.co.il
(Name, Telephone, E-mail and/or facsimile Number and Address of Company Contact Person)

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

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

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

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

NONE

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

NONE

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

ORDINARY SHARES OF NIS 0.01 EACH 156,087,456

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

YES o NO x

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

YES o NO x

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

YES x NO o

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

YES x NO o

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

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o

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

U.S. GAAP o

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

Other o

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

ITEM 17 o ITEM 18 o

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

YES o NO x

TABLE OF CONTENTS

INTRODUCTION

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

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

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

FORWARD-LOOKING STATEMENTS

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

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

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

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

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

	Year ended December 31,					
	2011	2012	2013	2014	2015	2015
	New Israeli Shekels in millions (except per share data)					US$ in millions (1)
Consolidated Statement of Income Data						
Revenues, net	6,998	5,572	4,519	4,400	4,111	1,054
Cost of revenues	4,978	4,031	3,510	3,419	3,472	890
Gross profit	2,020	1,541	1,009	981	639	164
Selling and marketing expenses	711	551	462	438	417	107
General and administrative expenses	291	236	217	193	223	57
Impairment of goodwill	87	-	-	-	-	-
Income with respect to Orange agreement	-	-	-	-	61	16
Other income, net	105	111	79	50	47	12
Operating profit	1,036	865	409	400	107	28
Finance income	33	21	29	3	13	3
Finance expenses	327	255	240	162	156	40
Finance costs, net	294	234	211	159	143	37
Profit (loss) before income tax	742	631	198	241	(36)	(9)
Income tax expenses	299	153	63	79	4	1

Profit (loss) for the year	443	478	135	162	(40)	(10)
Earnings (loss) per ordinary share and per ADS						
Basic:	2.85	3.07	0.87	1.04	(0.26)	(0.06)
Diluted	2.84	3.07	0.86	1.04	(0.26)	(0.06)
Weighted average number of shares outstanding (in thousands)						
Basic:	155,542	155,646	155,687	155,802	156,081	156,081
Diluted (for calculation above):	155,779	155,773	156,199	156,400	156,081	156,081

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

Total liabilities and shareholders' equity	7,087	6,417	5,487	5,496	5,526	1,416

(1) The NIS figures at December 31, 2015, and for the period then ended have been translated throughout this annual report into dollars using the representative exchange rate of the dollar at December 31, 2015 (USD 1 = NIS 3.902). The translation was made solely for convenience, is supplementary information, and is distinguished from the financial statements. The translated dollar figures should not be construed as a representation that the Israeli currency amounts actually represent, or could be converted into, dollars. See also “Item 3A. Key Information – Selected Financial Data – Exchange Rate Data”.

(2) Capital Expenditures represent additions to property and equipment (see Note 10 to our consolidated financial statements) and intangible assets (see Note 11 to our consolidated financial statements).

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

(4) The dividend per share was calculated in respect of the period for which it was announced. For the years ended December 31, 2013, 2014 and 2015, no dividend was declared by the Company. During 2012, the Company declared a dividend in the amount of approximately NIS 160 million (US$ 41 million), or NIS 1.03 per share. The aggregate total dividend for 2011 was NIS 350 million or NIS 2.25 per share.

(5) See Note 15 to the consolidated financial statements for information regarding long-term liabilities and current maturities of long-term borrowings and notes payable.

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

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

(1) The translations of NIS amounts into US dollars appearing throughout this annual report have been made at the exchange rate on December 31, 2015, of NIS 3.902 = US$1.00 as published by the Bank of Israel, unless otherwise

specified. See “Item 3A. Key Information – Selected Financial Data – Exchange Rate Data”.

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(*) Mainly amortization of employee share based compensation.

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

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

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

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

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

8

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

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

(5) Total number of Partner subscribers expressed as a percentage of the estimated total number of Israeli cellular subscribers.

(6) We have calculated our average monthly usage per cellular subscriber by (i) dividing, for each month in such period, the total number of minutes of usage, excluding in roaming usage, during such month by the average of the number of our subscribers, and (ii) dividing the sum of such results by the number of months in the relevant period. MOU data includes total incoming minutes to subscribers of those MVNO operators which Partner hosts on its network. Since 2014, in view of the continued increase in the proportion of cellular subscribers with bundled packages that include large or unlimited quantities of minutes (with fair use limits), the Company determined that reporting MOU was no longer beneficial to understanding the results of operation, and therefore the Company ceased reporting MOU figures.

(7) We have calculated our average monthly revenue per cellular subscriber by (i) dividing, for each month in the relevant year, the total cellular segment service revenues during the month by the average number of our cellular subscribers during that month, and (ii) dividing the sum of all such results by the number of months in the relevant period.

(8) We define the “churn rate” as the total number of cellular subscribers who disconnect from our network, either involuntarily or voluntarily, in a given period expressed as a percentage of the average of the number of our subscribers at the beginning and end of such period. Our churn rate includes subscribers who have not generated revenue for us for a period of the last six consecutive months ending at a reporting date. This includes cellular subscribers who have generated minute revenues only from incoming calls directed to their voice mail. Involuntary churn includes disconnections due to non-payment of bills or suspected fraudulent use, and voluntary churn includes disconnections due to subscribers terminating their use of our services.

(9) Fixed-lines include Primary Rate Interface (“PRI”) lines, whereby each PRI is considered to include 30 lines according to the number of channels, Session Initiation Protocol (“SIP”) trunks and Voice over Broadband (“VoB”) lines.

(10) As of the end of 2013, due to market developments, and in particular the increasing prevalence of bundled offerings in the market, the Company determined that the numbers of fixed-line and ISP subscribers no longer provided meaningful insight in the results of operation, and therefore ceased reporting these subscriber figures.

(11) We measure cellular coverage using computerized models of our network, radio propagation characteristics and topographic information to predict signal levels at two meters above ground level in areas where we operate a network site. According to these coverage results, we estimate the population serviced by our network and divide this by the estimated total population of Israel. Population estimates are published by the Central Bureau of Statistics in Israel.

(12) A full-time employee is contracted to work a standard 186 hours per month. Part-time employees are converted to full-time equivalents by dividing their contracted hours per month by the full-time standard. The result is added to the number of full-time employees to determine the number of employees on a full-time equivalent basis.

Exchange Rate Data

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

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

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

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

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

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

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

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

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

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

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

- Granting licenses and frequencies to two facility-based competitors (HOT Mobile and Golan Telecom). In April 2011, UMTS frequencies were awarded to Mirs Communications Ltd. ("MIRS") (subsequently renamed "HOT Mobile") and Golan Telecom Ltd. ("Golan Telecom"), which entered the cellular communications market in May 2012. HOT Mobile and Golan Telecom were awarded various benefits and leniencies, such as low minimum license fees and a reduction mechanism of the license fee (to the minimum fee set) offered to the winner based on the market share gained in the private sector over five years after being awarded the license. In order to achieve market share, these two competitors launched aggressive tariff plans which include unlimited use packages (with fair use limits). They have been granted substantial leniencies with respect to new frequency allocations (4G) of up to 50% discounts on frequency fees based on increasing their market share up to 5%. They have also been granted rights to use the frequencies for longer terms than ours, and they have received a waiver or other leniencies regarding their obligation to build an independent network.

- Facilitating entry of MVNOs into the market. Since 2010, the Ministry of Communications has adopted regulations to enable Mobile Virtual Network Operators ("MVNOs") to offer telecommunications services, and it has granted licenses to 11 MVNOs. The most recent licenses were granted in January 2013.

- Facilitating migration of customers between cellular companies. On January 1, 2013, an amendment to the Communications Law (Telecommunications and Broadcasting), 1982 (the "Telecommunications Law") became effective which prohibits cellular companies from linking cellular service transactions and handset-related transactions (unless the subscriber holds more than 100 lines). This amendment was added to previous amendments promulgated by the Ministry of Communications to facilitate the migration of subscribers among cellular companies and thus enhance competition, including the cancellation of exit fees before the end of a customer's commitment period, cancellation of commitment periods and a prohibition on selling SIM-locked handsets.

- Further reduction of cellular interconnection tariffs. An MOC economic opinion in February 2013 included a recommendation for a further reduction of cellular call and SMS interconnect tariffs towards the end of 2016. Such a reduction may materially adversely affect our business and results of operations since operating profit from interconnect traffic is significant.

- As of April 2015, the MoC published a clarification that operators cannot discriminate between new and existing customers with respect to the sale of plans.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3D.2 RISKS RELATING TO OUR BUSINESS OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Network sharing and similar agreements entered into by our competitors

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

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

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

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

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

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

- a discount at a rate of up to 50% of the amount that they will have to pay for the frequencies (each addition of 1% market share will grant a discount at a rate of 10%, up to a maximum discount at a rate of 50%, during a period of 5 years);

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the frequencies would be granted to them for longer license terms than those of the other cellular licensees-each operator received the right to use the frequencies for the period equal to the initial term of their license and a new operator such as Xphone, for a period of 20 years from the time of the grant of such license ; and

- a waiver of HOT Mobile and Golan Telecom's obligation to build an independent network subject to their commitment to invest in a shared network with another operator the same amount that they have committed to invest in their UMTS network.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The political and military conditions in Israel directly influence us. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. Hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners and political instability within Israel or its neighboring countries are likely to cause our revenues to fall and harm our business. During the last decade, there has been a high level of violence between Israel and the Palestinians, including missile strikes by Hamas against Israel, which led to an armed conflict between Israel and the Hamas over the past few years and more recently in July 2014. In the last few years, Iran has threatened to attack Israel with nuclear weapons. There is evidence that Iran has a strong influence among extremist groups in areas that neighbor Israel, such as Hamas in Gaza and Hezbollah in Lebanon and Syria. This situation may potentially escalate in the future to violent events which may affect Israel and us. Ongoing violence between Israel and its Arab neighbors and Palestinians may have a material adverse effect on the Israeli economy, in general, and on our business, financial condition or results of operations. During such periods, incoming and outgoing tourism may be affected which consequently may have an adverse effect on our financial results. In particular, in recent conflicts, missile attacks have occurred on civilian areas, which could cause substantial damage to our infrastructure network, reducing our ability to continue serving our customers as well as our overall network capacity. In addition, in the event political unrest and instability in the Middle East, including changes in some of the governments in the region, causes investor concerns resulting in a reduction in the value of the shekel, our expenses in non-shekel currencies may increase, with a material adverse effect on our financial results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3D.3 RISKS RELATED TO OUR PRINCIPAL SHAREHOLDER

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

4A. History and Development of the Company

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

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

- In April 1998, we received our license to establish and operate a cellular telephone network in Israel.

- In January 1999, we launched full commercial operations with approximately 88% population coverage and established a nationwide distribution.

- In October 1999, we completed our initial public offering of ordinary shares in the form of American Depositary Shares, and received net proceeds of approximately NIS 2,092 million, with the listing of our American Depositary Shares on NASDAQ and the London Stock Exchange. We used part of these net proceeds to repay approximately NIS 1,494 million in indebtedness to our principal shareholders, and the remainder to finance the continued development of our business. (In March 2008, we voluntarily delisted our ADSs from the London Stock Exchange.)

- In August 2000, we completed an offering, registered under the US Securities Act of 1933, as amended, of $175 million (approximately $170.5 million after deducting commissions and offering expenses) in 13% unsecured senior subordinated notes due 2010. These notes were redeemed in August 2005.

- In July 2001, we registered our ordinary shares for trading on the Tel Aviv Stock Exchange.

- In December 2001, the Ministry of Communications (“MoC”) awarded us two bands of spectrum: one band of GSM 1800 spectrum and one band of 2100 UMTS third generation spectrum.

- In June 2002, our license was extended until February 2022.

- In December 2004, we commercially launched our 3G network.

- In March 2005, we completed a debt offering, raising NIS 2.0 billion in a public offering in Israel of notes due 2012.

- In April 2005, we repurchased approximately 33.3 million shares from our Israeli founding shareholders, representing approximately 18.1% of our outstanding shares immediately before the repurchase.

- In the third quarter of 2005, our Board of Directors and shareholders approved the distribution of our first cash dividend, in the amount of NIS 0.57 per share, totaling approximately NIS 86.4 million.

- In March 2006, we launched services based on the High Speed Downlink Packet Access ("HSDPA") technology. HSDPA is a technological enhancement to our 3G services that offers subscribers the ability to access our 3G services at higher speeds. The HSDPA technology has been deployed to support up to 21 Mbps on the downlink and 5.76 Mbps on the uplink.

- In July 2006, we purchased Med-1 I.C.–1 (1999) Ltd.'s fiber-optic transmission business for approximately NIS 71 million, in order to enable us to reduce our transmission costs as well as to provide our business customers with bundled services of transmission of data and voice and fixed-line services.

- In January 2007, we were granted a domestic fixed license by the Ministry of Communications, and in February 2007 we were granted a network termination point license.

- In December 2008 and January 2009, we launched three additional non-cellular business lines: VoB telephony services, ISP services and Web VOD (video on demand).

- In October 2009, Scailex became our principal shareholder through acquiring the entire interest in the Company of our previous controlling shareholder.

- In February 2010, following the District Court's approval, a total amount of NIS 1.4 billion or approximately NIS 9.04 per share was paid on March 18, 2010, to shareholders and ADS holders of record on March 7, 2010, as a special dividend distribution.

- In March 2011, we acquired all of the outstanding shares of 012 Smile Telecom Ltd., a leading provider of broadband and traditional telecommunications services in Israel. The acquisition of 012 Smile supported our strategy of becoming a leading comprehensive communications group, expanding our range of services and products.

- In January 2013, S.B. Israel Telecom, an affiliate of Saban Capital Group, a private investment firm, based in Los Angeles, California, specializing in the media, entertainment and communications industries, became our principal shareholder through acquiring 30.87% of our issued and outstanding shares, principally from our previous controlling shareholder, Scailex. See "Item 7A Major Shareholders".

- In November 2013, we entered into a 15-year Network Sharing Agreement with HOT Mobile pursuant to which the parties agreed to create a 50-50 joint venture to operate and develop a cellular network to be shared by both parties (inter alia, as a result of pooling both parties' radio access network infrastructures to create a single radio access network). The Network Sharing Agreement was approved by the Israeli anti-trust authorities, subject to conditions in May 2014, and by the Ministry of Communications in April 2015. See "Item 4B.9 Our Network".

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In July 2014, we commercially launched limited 4G services in Israel over a frequency band of only 5 MHz in the 1800 spectrum.

- In March 2015, the acting Minister of Communications approved the results of the tender bid process in which we won an additional 5 MHz in the 1800 spectrum (in addition to our 10 MHz frequency bands in the 1800 spectrum).

- In April 2015, following approval by the Minister of Communications, the Network Sharing Agreement with HOT Mobile entered into effect.

- In February 2016, we rebranded our products and services that were previously under the "Orange" brand to be under the new "Partner" brand. See "Item 5A.1c Settlement Agreement with Orange Brand Services Ltd."

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

4B. Business Overview

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

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

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

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

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

and

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

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

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

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

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

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

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

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

- High Rate of Unlimited Packages. Israeli cellular operators provide, among other price-competitive offers, a particularly high rate of unlimited voice and text packages, and various data packages consisting of relatively high volumes of data at competitive prices.

- Lack of Migration Barriers, High Churn and Recruitment Rate of Subscribers. The Israeli cellular market to date has limited migration barriers. There is full number portability. Operators are prohibited from selling SIM locked handsets and are no longer able to link the sale of handsets to services. In addition, operators are no longer allowed to charge exit fees from residential or small business customers or offer better tariff plans to new customers. As a result of this, as well as the entrance of new competitors, there is a high rate of churn and recruitment rate of subscribers in the Israeli cellular market.

- Cellular Telephone Market Saturation. Since 1994, the market has sustained a rapid annual rate of growth from a 2.6% penetration rate at year-end 1994 to an estimated penetration rate in Israel at December 31, 2015, of 124%, representing approximately 10.2 million subscribers out of an estimated population of approximately 8.5 million. The total number of estimated cellular telephone subscribers includes dormant subscribers and subscribers to multiple networks as well as other subscribers who are not included in the Israeli population figures, such as Palestinians, visitors, and foreign workers.

- Entrance of Additional Operators. The regulatory changes in the telecommunications industry, particularly with respect to additional entrants that include cellular operators and MVNOs, have created a high level of competition in the industry.

- Favorable Geography. Israel covers an area of approximately 8,000 square miles (20,700 square kilometers) and its population tends to be centered in a small number of densely populated areas. In addition, the terrain of Israel is relatively flat. These factors facilitate the roll out, maintenance and subsequent upgrades of a cellular network in a cost effective manner.

- High Penetration of Smartphones. Published market data shows that the relatively young Israeli population has a propensity to accept and use high technology products. The level of penetration of smartphones in the Israeli market is also estimated to be one of the highest in the world.

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

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

Fixed-line telephony Services

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

Broadband and Internet services

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

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

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

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

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

International long distance services

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

Examinations". Such regulations may alter the ILD market structure in Israel and decrease the volume of international calls routed through ILD providers.

4B.3 OUR STRATEGY

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

Variety of cellular and wireless solutions. We offer our customers a wide range of cellular and fixed-line services, as well as ILD services, infrastructure and ISP services (subject to the removal of obstacles in the wholesale market reform) and we are examining entering into the multi-channel television market through OTT technology. We operate to expand the digital service interfaces that allow availability and accessibility for the different sectors of the population in the Company's various service channels, including through selling equipment and providing digital interfaces. We intend to provide the services and technology which will enable our customers to benefit from the best services and technologies in any place, any time and from any device (AAA). The worldwide growth trend of data consumption provides us with new opportunities to offer new value propositions and to implement segment-oriented pricing strategies for our customers.

Implementation of the new “Partner” brand. In February 2016, we announced and launched a new brand that received nationwide exposure through the media. The new brand "Partner" replaces the Orange brand which has been associated with the Company since our commercial launch. We strive to implement the new brand amongst our stakeholders, customers, employees, suppliers, partners, the community and the entire public so that it will be identified with innovation and quality customer service we provide.

Drive Customer Satisfaction through Customer Centric Strategy. We have always believed that customer satisfaction is a key concern and strive to listen to our diverse customers' needs, internalize and respond accordingly including by offering tailored packages to the various sectors. We provide our customers with a high level of accessible customer service at our service centers, call centers and digital services. We offer our business customers services including: network and data infrastructures, advanced information security solutions, integration solutions, designated services for customers with multiple branches and commercial networks, business information storage in a secured and advanced data center and cloud services.

We seek to remain a central and leading player in the retail sale of handsets and accessories. We continuously adapt ourselves to the changing needs of our customers, while following new and innovative equipment and accessory developments and changes in the telecommunications market.

Technical Leadership and Innovation. We continue to lead the telecommunications market with advanced and innovative technology and strive always to be at the technological edge. We were the first cellular company in Israel to launch an LTE (4G) network (in July 2014). Upon allocation of additional 1800 frequencies, following a 4G tender held in January 2015, and the Network Sharing Agreement with HOT Mobile, which allows us to share frequencies, we are able to provide our customers with a full 4G experience, among others, due to the widest geographical deployment compared to our competitors. We have the widest 4G coverage compared to other cellular operators as a result of having the largest deployment of 4G cell sites, and we intend, under certain circumstances to operate to expand LTE coverage and quality in order to maintain our technical leadership in the market.

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

4B.4 COMPETITIVE STRENGTHS

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

High Quality Network. We believe that as a result of our investments in upgrading our network, we have the most advanced cellular telecommunications network in Israel. Furthermore, through the joint venture created under the Network Sharing Agreement with HOT Mobile, we have combined our respective base cellular stations and thus enabled the network to gain denser site grids offering improved coverage and capacity, and thus better quality of service in terms of accessibility, retainability and quality of sound. At the same time, the joint venture created under the Network Sharing Agreement with HOT Mobile is expected to increase network efficiency by reducing the total number of network sites, while improving network coverage and capacity and introducing new technology.

Customer Centric Approach. Since we believe that customer satisfaction is a key concern, we provide a quality customer experience through quick, simple and reliable handling of customer needs and interactions, which we have achieved through investments in technology, offering tailored packages to the various sectors, launching a new portfolio of smartphones and tablets, and new communications products as well as training of customer service skills.

Growing Variety of Digital Platforms. We offer our customers a variety of self -service options and are planning, as a comprehensive telecommunications company that offers an entire range of telecommunication solutions, to continue expanding our self-service options and other tools as part of our digital transformation.

Variety of communication products. We believe that our fixed-line telephony, ISP services, transmission services and ILD services, strengthen our position in the communications market. Offering a variety of combined mobile and fixed-line products and services will enable us to better compete with the bundled services of other players, increase customer loyalty, and serve as an additional source of revenue.

Strong and Motivated Management Team. We have been able to attract a number of Israeli senior managers from the telecommunications, high-tech and consumer products industries. Our management team is experienced and highly respected and, we believe, well-positioned to manage and lead the Company.

4B.5 MARKETING AND BRAND

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

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

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

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

4B.6 SERVICES AND PRODUCTS

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

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

4B.6a Cellular Services and Products

Basic Cellular Services

Our main business is cellular telephony – provided on our 2G, 3G and 4G networks. Our basic offer includes cellular telephony services, text messaging, data, airtime, interconnect, roaming, international dialing, voice mail, call waiting, call forwarding, caller identification, conference calling, short message services (“SMS”), intelligent network services (such as VPN and funtone), fax transmission, mobile broadband at speeds of up to 150 Mbps[1] and other services as a mobile portal of content services and applications. Our services are provided over our cellular network including wholesale services to other operators as well as equipment and device sales.

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

Value- Added Services

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

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

International Roaming

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

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

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

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

Cellular Equipment and Devices

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

4B.6b Fixed-line Services and Products

Basic Fixed-Line Services

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

ISP services. As an internet service provider, we offer our customers ISP services that include email accounts, Wi-Fi networking as well as additional value added services such as anti-virus and anti-spam filtering, and we offer a bundled package that includes infrastructure and ISP services as part of the wholesale market reform. Furthermore, we offer our business customers additional tailored value services that combine an entire array of solutions including: network and data infrastructures, advanced information security solutions, integration solutions, designated services for customers with multiple branches and commercial networks, business information storage in a secured and advanced data center and cloud services.

ILD services. As an international long distance provider, we offer our residential and business customers international telephony services including direct international dialing services, international and domestic pre-paid and post-paid calling cards, and call-back services. Most of the pre-paid calling cards are sold to foreign workers in Israel. In addition, we offer our business customers international toll-free numbers that offers fixed rates on calls from anywhere in the world. As an international long distance provider, we also provide hubbing traffic routing between network operators for termination of long distance calls outside of Israel.

Transmission. We provide fixed-line transmission and data capacity services. Our fixed-line capacity also includes capacity which we lease from other fixed-line telecommunications service providers as well as inland fiber optic infrastructure and complimentary micro wave radio links. The services we offer include primarily connectivity services, on an SDH (Synchronous Digital Hierarchy) transmission network, by which we provide high quality, dedicated, point-to-point connection for business customers and telecommunications providers, as well as fixed-line services to business customers.

VoB and PRI. The VOB service allows business and residential customers to make and receive telephone calls over the Internet through an internet connection. The PRI is a landline network service connecting organizational switchboards to Partner's network and allows business customers to make multiple calls simultaneously. We offer traditional voice services to residential and business customers throughout Israel.

Value- Added Services

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

Fixed Line Equipment and Devices

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

4B.6c Tariff Plans

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

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

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

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

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

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

4B.7 SALES AND DISTRIBUTION

4B.7a Customer Care

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

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

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

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

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

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

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

42

4B.7b Sales and Distribution Channels

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

4B.7b - i Direct Sales Channels

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

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

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

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

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

4B.7b - ii Indirect Sales Channels

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

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

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

4B.7b - iii Online Sales Channels

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

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

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

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

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

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

4B.9 OUR NETWORK

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

4B.9a Overview

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

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

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

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

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

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

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

- Prohibition on exchange of information that is not required for the activities of PHI under the Restrictive Trade Law. See 4B.13d - xi Anti-Trust Regulation";

- Limitations with respect to serving as an officer or employee in either Partner or Hot Mobile concurrent with serving as an officer or employee of PHI and certain cooling off periods were set in case of transition of officers and employees from PHI to the companies. However, this should not prevent PHI from employing employees or officers, who are currently serving as employees or officers in the companies and does not prevent an officer in Partner or Hot Mobile from serving as a director in PHI's general partner's board of directors;

- Rules regarding the administration and documentation of the meetings of PHI organs were set;

- Either of the companies shall be allowed, at any time and at its sole discretion, to engage in an agreement with a third party for the provision of cellular telecommunications services that involves use of the core network of that company. All of the rights and obligations deriving from such service agreement shall apply solely to that company and PHI shall not be a party to such service agreement and will not be entitled to payments payable pursuant to it;

- After a period of seven years from the date of the Commissioner's approval or after a period of six years from the issue date of all the approvals of the Ministry of Communications, whichever is earlier, the Commissioner shall be allowed to notify the companies of the cancellation of his resolution, if he has concluded that the establishment of PHI, its existence or operations are liable to be substantively detrimental to the competition ("Cancellation Notice"). If a Cancellation Notice is issued, a graduated layout of dismantling PHI activity was set in the Commissioner resolution, as follows:

  a. at the end of two years after the issuance of the Cancellation Notice, PHI shall cease all activity apart from the management, maintenance and operation of the passive elements of the network.

  b. at the end of five years after the issuance of the Cancellation Notice, the companies shall dismantle PHI and shall separate their assets fully and entirely.

45

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

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

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

4B.9b Infrastructure

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

- Our radio access network domain consist of 2,000 macro GSM base transceiver stations, 72 micro GSM base transceiver stations and 286 indoor GSM transceiver stations, all linked to 7 base station controllers.

- 2,049 macro UMTS base transceiver base stations (eNodesBs), 42 micro UMTS base transceiver stations and 730 indoor UMTS transceiver stations, all linked to 21 radio network controllers.

- 1,289 macro LTE base transceiver base stations (eNodesBs), 6 micro LTE base transceiver stations and 106 indoor LTE transceiver stations.

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

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

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

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

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

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

4B.9c Network Design

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

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

We use monitoring probes and counters to ensure network quality.

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

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

4B.9d Spectrum Allocation and Capacity

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

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

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

4B.9e Enabling Systems

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

4B.9f Site Procurement

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

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

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

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

4B.9g Suppliers

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

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

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

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

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

4B.9h Interconnection

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

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

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

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

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

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

4B.10 COMPETITION

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

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

4B.10a Competitors in the Cellular Services market

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

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

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

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

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

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

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

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

Other Operators

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

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

Golan Telecom. Golan Telecom, is a privately owned company, owned by Michael Golan, Xavier Niel and the Parienti family and began operations in early 2012 after winning a Ministry of Communications' tender offer for frequencies in the 2100 MHz spectrum. Golan Telecom signed a national roaming agreement with Cellcom. In November, 2015, Cellcom announced that it entered into an agreement with Golan Telecom and its shareholders for the purchase of 100% of the shares of Golan Telecom. This agreement is subject to the receipt of the approvals of the

Ministry of Communications and the Antitrust Commissioner, both of which have not yet approved the acquisition.

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

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

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

MVNOs

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

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

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

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

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

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

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

4B.10b Competitors in Fixed-line Services

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

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

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

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

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

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

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

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

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

4B.11 INFORMATION TECHNOLOGY

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

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

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

4B.12 INTELLECTUAL PROPERTY

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

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

4B.13 REGULATION

4B.13a Overview

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

54

4B.13b Telecommunications Law

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

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

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

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

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

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

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

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

4B.13c Fair Competition and Antitrust Law

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

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

4B.13d Regulatory Developments

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

4B.13d - i Consumer Protection License Amendments

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

4B.13d - ii Filber Committee

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

4B.13d - iii Reduction of Interconnect Tariffs to Be Paid to Cellular Operators

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

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

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

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

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

4B.13d - iv Reduction of Interconnect Tariffs to Be Paid to Fixed-line Operators

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

4B.13d - v Premium services regulation

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

4B.13d - vi LTE Spectrum Allocation

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

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

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

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

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

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

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

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

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

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

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

58

4B.13d - ix Hearings and Examinations

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

Roaming fees. The Ministry of Communications is evaluating the cost of roaming and may introduce new regulations that would limit fees charged by Israeli cellular companies for calls made by the customers of foreign network operators while they are in Israel and using our network, as well as for calls made by our own customers using their handsets abroad. The Ministry of Communications has requested additional and more specific international roaming data from the cellular companies. Because we consider roaming charges to be a significant source of revenue, such regulatory limits could adversely affect our revenues.

Roaming Services. In August 2014, the Ministry of Communications published a hearing aimed at increasing competition in roaming services abroad currently provided by cellular licensees. As part of the hearing, the Ministry proposed to enable every cellular subscriber to receive roaming services abroad from operators which are not his cellular provider (on top of his cellular operator) while keeping his cellular number. These alternative roaming providers include other cellular licensees, MVNOs, ISPs, ILD licensees and fixed telephony licensees. The Ministry of Communications also suggested determining various measures intended to improve transparency and to limit subscriber payments only to the exact volume of services consumed. Such measures include: all roaming calls abroad (incoming and outgoing) would be billed using time units of 1 second; all roaming data sessions would be billed using volume units of 1KB; the billable duration of all voice calls would be from the second in which the call was connected and until it ended (explicitly excluding any wait period from pushing the “call” button until the call is connected). Because we consider roaming charges to be a significant source of revenue, such regulatory limits could adversely affect our revenues.

Frequency fees. The Ministry of Communications is conducting a re-assessment of the frequency fees set forth in the law, which includes the assessment as to its economic value, in order to support effective allocation and the utmost utilization of the frequencies.

Roaming services during emergencies. In September 2012, the Ministry of Communications published a hearing with respect to roaming during a state of emergency or during a significant continuous malfunction in which the Ministry of Communications considers determining that under certain conditions, upon the Minister of Communications’ instruction, cellular operators that have their own network infrastructure, will be required to provide roaming services to the subscribers of other cellular operators that have network infrastructure, whose network has been rendered non-functioning for a significant amount of time following an event resulting from a state of emergency, a telecommunications crisis or during a significant continuous malfunction. The Company submitted its response to the hearing in October 2012. The revenues of the Company would be adversely affected if these proposed new regulations are adopted.

Intervention in international call market. In October 2013, the Ministry of Communications published a hearing regarding new regulation of the international call market. In the hearing, it was proposed by the Ministry to allow all general licensees (including MVNOs) to provide international call services to their subscribers, with respect to the international destinations which are included in their subscribers' tariff plans and to international destinations for which the tariff is lower or equal to the tariff of a call on the licensee's network ("Included Destinations"). The Ministry of Communications also proposed in the hearing that the general licensees (such as cellular operators) would not be allowed to collect an interconnect fee for outgoing international calls. The Company submitted its response to the hearing in January 2014. In October 2014, the Ministry published a secondary hearing on this matter, in which it proposed that all outgoing international calls which are not to Included Destinations, shall be preceded with a voice message stating the tariff of such call and allowing the subscriber to disconnect without being charged. The Company submitted its response to this secondary hearing in October 2014. The revenues of the Company may be adversely affected if the changes proposed in these hearings are adopted.

Filtering of Offensive Websites and Content. In August 2014, the Ministry of Communications published a hearing regarding proposed amendments to telecommunications licenses granted to various operators, including the Company and its subsidiaries. According to the Telecommunications Law, ISP and cellular licensees, are required to provide a service for filtering of offensive websites and content at no additional cost to the subscriber. The Law also includes provisions which oblige said licensees to inform their subscribers of the dangers of internet use (including offensive websites and content).As part of the hearing, it is proposed to amend the ISP and cellular licenses to include additional requirements to the existing requirements described above. The proposed amendments include, among others, the following matters: (1) detailed specifications of the filtering service; (2) requirements regarding the informational leaflet to be provided to the subscriber; and (3) an obligation to offer filtering software to be installed on any type of terminal equipment. In October 2014, the Company filed its written position seeking to limit the impact of the proposed amendments.

Consumer Protection-Call Centers. In August 2014, the Ministry of Communications published a hearing regarding proposed amendments to telecommunications licenses granted to various operators, including the Company and its subsidiaries. As part of the hearing, it is proposed to amend the licenses with respect to the quality of service of the licensees' call centers. The amendments include, among others, the following matters: the maximum response times for each call and the average daily response times; recording requirement regarding a billing inquiry, termination of all services or termination of a single service calls; and requirement to issue and to publish on the licensees' websites detailed weekly reports that will include complete data in relation to their conduct regarding response times. The Company submitted its response to the hearing in October 2014. In parallel to the hearing, the Ministry of Communications published a draft memorandum with respect to the Telecommunications Law, according to which a subscriber will be able to sue for a fixed amount of compensation in case a licensee fails to meet the proposed response times and for compensation in case of an over charge in the monthly bill, both without proving damages. The Company submitted its response to the draft memorandum in October 2014. These amendments may have an adverse affect on the Company's results of operations.

Cellular Network Coverage Amendments. In July 2014, The Ministry of Communications and the Civil Administration in Judea and Samaria published a hearing regarding a proposed amendment to general licenses for the provision of cellular services (MRT), granted to five operators including the Company. As part of the hearing, it is proposed to amend the operators' licenses and to materially intensify the requirements set in the licenses with respect to the coverage and service quality of the operators' 2G and 3G networks deployed in Israel and in the Judea and Samaria area, as follows:

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Minimum coverage requirements - will be set out in terms of population, territory, settlements and roads and railroad track paths;

60

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

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

Transmission line connections between ISP providers' facilities and fixed-line infrastructure. In April 2015, the Ministry of Communications published a hearing, stating that Bezeq and Hot Telecom (the "infrastructure owners") would not be allowed to oblige ISP providers to purchase "Gigabit Ethernet" services (transmission services which connect ISP's facilities to Bezeq and Hot Telecom's infrastructures) from the infrastructure owners and the ISP providers would be allowed to purchase "Gigabit Ethernet" services from other licensees or perform such connections themselves. As part of the hearing, the Ministry stated that such a practice of the infrastructure owners does not presumably comply with the Telecommunications Law, which states that a licensee will be forbidden to condition the supply of a certain telecommunications service upon the supply of another telecommunications service. The Company submitted its response to this hearing. If the final decision in this hearing process will be as suggested in the hearing, the Company may be positively affected by the results of the hearing.

Change of "Subscriber" definition in numbering program regarding number portability. In May 2015, the Ministry of Communications published a hearing aimed at amending the definition of a "Subscriber" in the numbering program regarding number portability ("Number Portability Plan"). According to the hearing, the suggested amendment is meant to increase competition in the cellular market by allowing a subscriber who received his phone number from his employer, to keep the phone number when migrating to another cellular operator. In addition, the Ministry suggests, as part of the hearing, to set certain changes in the Number Portability Plan, with respect to the identification of an applicant to keep his phone number in the event of a change of a cellular operator. The Company submitted its response to this hearing in June 2015. These amendments may have an adverse affect on the Company's results of operations.

Communication facilities in residential buildings. In May 2015, the Ministry of Communications published a hearing with respect to the installation of telecom cables in residential buildings. According to the hearing, the Ministry received several complaints from the IBC - Israel Broadband Company, which indicates that in many residential buildings, all telecom cabinets and ducts are fully occupied by infrastructure deployed by Bezeq and Hot, in a manner that prevents deployment of other infrastructure, including telecom cables, by another company. Accordingly, the Ministry proposed that several orders should apply to HOT and Bezeq in order to remove the barriers for the deployment of telecommunications infrastructure by other telecom providers. The Company submitted its response to this hearing. The Company may be positively affected by the results of the hearing.

Collection of payments for on-going and one-time transactions, and relative billing. In September 2015, the Ministry of Communications published a hearing, regarding a proposed amendment to general licenses for the provision of cellular services (MRT), MVNO licenses and general-unified licenses. As part of the hearing, it is proposed to require such licensees to comply with the following demands: payment for a one-time transaction will be pre-paid, while payment for on-going transactions will be post-paid; with regard to on-going transactions, in which a fixed period payment is collected from the subscriber - if the subscriber terminates the agreement with the licensee, then the licensee may require a payment based upon the ratio between: (a) the number of days from the beginning of the accounting period through the date of termination, and (b) the total number of days during the accounting period; in addition, in such on-going transactions, in the event that the licensee ceases to provide all of its services to a subscriber, due to a breach of contract conducted by the subscriber, then the licensee will cease to charge the subscriber for a payment and will instead charge the fixed payment for the month during which the breach occurred, calculated on the basis of the ratio between the number of days in which the licensee has provided its services to the subscriber and the total number of days in the relevant month. The Company submitted its response to this hearing. These amendments may have an adverse affect on the Company's results of operations.

4B.13d - x The Ministry of Communications policy regarding the fixed-line telecommunications sector

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

A. Sale of wholesale services:

i. The two wireline infrastructure operators that provide retail telecommunication services will be required to offer wholesale services to the other telecommunication providers, that will offer services on the owners' infrastructure (the wholesale market), based on non-discriminatory conditions.

ii. The wholesale services tariffs and the terms of agreement shall be determined through negotiations between the two wireline infrastructure operators and the service providers. An infrastructure owner that reaches an agreement with such other provider shall be required to offer the same terms, without discrimination, to all other providers. Affiliates of the infrastructure owner shall also be allowed to purchase wholesale services as long as these will be provided without discrimination to all other providers.

iii. The Ministry of Communications shall intervene and set the wholesale tariffs and said terms of agreement, in case an agreement has not been reached between the parties within 6 months from the date of the publication of the policy document or if the agreement between the parties includes tariffs or terms that are unreasonable, may harm the competition, may harm the public welfare or may harm the interest of the service provider.

B. Structural Separation

i. Within 9 months of a signed agreement between said parties, the structural separation between the fixed-line infrastructure owner and its international call provider and internet service provider (ISP) affiliates shall be abolished and replaced by an accounting separation.

ii. The Minister of Communications shall consider providing leniencies or abolishing the structural separation (and replacing it with an accounting separation) between the fixed-line infrastructure owner and its affiliated cellular operator, in accordance with the development of the wholesale market and the pace of development of competition based on packaged services that combine fixed-line services and cellular services in the private sector.

iii. In case a proper and appropriate wholesale market does not develop within 24 months from the date of the publication of the policy document, the Minister of Communications shall act to impose a structural separation in the fixed-line infrastructure owners, between the infrastructure and the services provided through this infrastructure to the end-customers.

C. Supervision over Bezeq Tariffs

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

D. Television Broadcasts

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The Ministry of Communications shall examine imposing a requirement to offer unbundled television services that are included in services packages that include telecommunication services (fixed-line and mobile) or broadband access services, which means a requirement to provide them at the same tariff as part of a service package or separately.

ii. The abolishing of the structural separation with respect to multi-channel television shall be done if there is a reasonable possibility to provide a basic package of television services through the internet by service providers that do not own fixed-line infrastructure.

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

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

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

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

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

- A service provider which loaned or rented terminal equipment to its subscriber, that later becomes a subscriber of another service provider in the wholesale market, will not be able to prevent or limit the continuity of the subscriber's ordinary use of the terminal equipment, for a period of 21 days;

- The payment to the service provider for the terminal equipment during such interim period will be performed by the subscriber, in a similar manner to its arrangement with its previous service provider (and the subscriber would not pay any payment for such equipment to the new service provider).

63

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

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

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

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

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

4B.13d - xi Israel Broadband Company

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

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

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

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

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

4B.13e Our Mobile Telephone License

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

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

Our license allocates to us specified frequencies and telephone numbers.

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

observing the provisions of the Telecommunications Law, the Wireless Telegraphy Ordinance, the regulations and the provisions of our license;

acting to continuously improve our mobile telephone services, their scope, availability, quality and technology, and that there has been no act or omission by us harming or limiting competition in the mobile telephone sector;

having the ability to continue to provide mobile telephone services of a high standard and to implement the required investments in the technological updating of our system in order to improve the scope of such services, as well as their availability and quality; and

using the spectrum allocated to us efficiently, compared to alternative applications.

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

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

We have illegally ceased, limited or delayed any one of our services;

Any means of control in Partner or control of Partner has been transferred in contravention of our license;

We fail to invest the required amounts in the establishment and operation of the mobile radio telephone system in accordance with our undertakings to the Ministry of Communications;

We have harmed or limited competition in the area of mobile radio telephone services;

A receiver or temporary liquidator is appointed for us, an order is issued for our winding up or we have decided to voluntarily wind up; or

Partner, an Office Holder in Partner or an Interested Party in Partner or an Office Holder in an Interested Party of Partner is an Interested Party in a competing mobile radio telephone operator or is an Office Holder in a competing mobile radio telephone operator or in an interested party in a competing mobile radio telephone operator without first obtaining a permit from the Ministry of Communications to do so or has not fulfilled one of the conditions included in such permit. See “Item 4B.13e Our Mobile Telephone License-Our Permit Regarding Cross Ownership.”

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

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

We must at all times be a company registered in Israel.

Our founding shareholders and their approved substitutes must hold, in the aggregate, at least 26% of each of our means of control. Furthermore, the maintenance of at least 26% of our means of control by our founding shareholders and their approved substitutes allows Partner to be protected from a license breach that would result from a transfer of shares for which the authorization of the Ministry of Communications was required, but not obtained.

Israeli entities from among our founding shareholders and their approved substitutes must hold at least 5% of our issued and outstanding share capital and of each of our means of control. “Israeli entities” are defined as individuals who are citizens and residents of Israel and entities formed in Israel and controlled, directly or indirectly, by individuals who are citizens and residents of Israel, provided that indirect control is only through entities formed in Israel, unless otherwise approved by the Israeli Prime Minister or Minister of Communications.

At least 10% of our Board of Directors must be appointed by Israeli entities, as defined above, provided that if the Board of Directors is comprised of up to 14 members, only one such director must be so appointed, and if the Board of Directors is comprised of between 15 and 24 members, only two such directors must be so appointed.

Matters relating to national security shall be dealt with only by a Board of Directors' committee that has been formed for that purpose. The committee includes at least 4 members, of which at least one is an external director. Only directors with the required clearance and those deemed appropriate by Israel’s General Security Service may be members of this committee. Resolutions approved by this committee shall be deemed adopted by the Board of Directors.

The Ministry of Communications shall be entitled to appoint an observer to the Board of Directors and its committees, subject to certain qualifications and confidentiality undertakings.

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

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

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

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

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

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

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

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

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

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

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

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

- voting rights in Partner;
- the right to appoint a director or managing director of Partner;
- the right to participate in Partner’s profits; or

- the right to share in Partner's remaining assets after payment of debts when Partner is wound up.

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

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

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

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

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

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

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

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

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

- Founding shareholders or their approved substitutes must hold at least 26% of the means of control of Partner.

- Israeli entities from among our founding shareholders and their approved substitutes must hold at least 5% of our issued share capital and of each of our means of control.

- The majority of our directors, and our general manager, must be citizens and residents of Israel.

- Neither the general manager of Partner nor a director of Partner may continue to serve in office if he has been convicted of certain legal offenses.

- No trust fund, insurance company, investment company or pension fund that is an Interested Party in Partner may: (a) hold, either directly or indirectly, more than 5% of any means of control in a competing mobile radio telephone operator without having obtained a permit to do so from the Ministry of Communications, or (b) hold, either directly or indirectly, more than 5% of any means of control in a competing mobile radio telephone operator in accordance with a permit from the MoC, and in addition have a representative or appointee who is an Office Holder in a competing mobile radio telephone operator, unless it has been legally required to do so, or (c) hold, either directly or indirectly, more than 10% of any means of control in a competing mobile radio telephone operator, even if it received a permit to hold up to 10% of such means of control.

- No trust fund, insurance company, investment company or a pension fund that is an Interested Party in a competing mobile radio telephone operator may: (a) hold, either directly or indirectly, more than 5% of any means of control in Partner, without having obtained a permit to do so from the Ministry of Communications; or (b) hold, directly or indirectly, more than 5% of any means of control in Partner in accordance with a permit from the Ministry of Communications, and in addition have a representative or appointee who is an Office Holder in Partner, unless it has been legally required to do so; or (c) hold, either directly or indirectly, more than 10% of any means of control in Partner, even if it received a permit to hold up to 10% of such means of control.

- Partner, an Office Holder or Interested Party in Partner, or an Office Holder in an Interested Party in Partner does not control a competing mobile radio telephone operator, is not controlled by a competing mobile radio telephone operator, by an Office Holder or an Interested Party in a competing mobile radio telephone operator, by an Office Holder in an Interested Party in a competing mobile radio telephone operator, or by a person or corporation that controls a competing mobile radio telephone operator.

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

- A change has occurred in the suitability of Partner to implement the actions and services that are the subject of our license.

- A change in our license is required in order to ensure effective and fair competition in the telecommunications sector.

- A change in our license is required in order to ensure the standards of availability and grade of service required of Partner.

- A change in telecommunications technology justifies a modification of our license.

- A change in the electromagnetic spectrum needs justifies, in the opinion of the Ministry of Communications, changes in our license.

- Considerations of public interest justify modifying our license.

- A change in government policy in the telecommunications sector justifies a modification of our license.

- A change in our license is required due to its breach by Partner.

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

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

- "Office Holder" means a director, manager, company secretary or any other senior officer that is directly subordinate to the general manager.

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

• "Controlling Corporation" means a company that has control, as defined above, of a foreign mobile radio telephone operator.

• "Interested Party" means a person who either directly or indirectly holds 5% or more of any type of means of control, including holding as an agent.

Our Permit Regarding Cross Ownership

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

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

4B.13f Other Licenses

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

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

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

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

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

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

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

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

4B.13g Network Site Permits

Permits of the Ministry of Environmental Protection

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

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

Local Building Permits

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

71

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

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

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

National Building Plan No. 36

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

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

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

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

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

Wireless access devices

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

Other Approvals

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

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

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

We have received approval from the Ministry of Communications for selling and distributing all of the handsets and other terminal equipment we sell. The Ministry of Environmental Protection also has authority to regulate the sale of handsets in Israel, and under the new Non-Ionizing Radiation Law, certain types of devices, which are radiation sources, including cellular handsets, have been exempted from requiring an approval from the Ministry of

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

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

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

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

4C. Organizational Structure

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

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

4D. Property, Plant and Equipment

Headquarters

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

Network

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

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

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

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

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

Service Centers and Points of Sale

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

4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

5A. Operating Results

5A.1 OVERVIEW

5A.1a Key Financial and Operating Data

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

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

5A.1b Business Developments in 2015

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

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

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

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

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

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

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

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

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

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

5A.1d Network Sharing Agreement with HOT Mobile

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

According to the provisions of the Network Sharing Agreement, HOT Mobile would pay Partner a onetime amount of NIS 250 million ("Lump Sum"), by the beginning of year 2017, unless one of the parties exercises an option granted to it under the Network Sharing Agreement pursuant to which a portion of the Lump Sum will be paid earlier ("Option"). Following the earlier of January 1, 2017 or the date of payment of such a portion of the Lump Sum upon exercise of the Option, each party will bear half of the capital expenditures relating to the shared network. The bearing of the operating costs of the shared network will be according to a pre-determined mechanism, according to which one half of the operating costs will be shared equally by the parties, and one half will be divided according to the relative volume of traffic of each party in the shared network. Partner expects that the Network Sharing Agreement will provide material financial benefits to Partner in terms of both the anticipated upfront payment by HOT Mobile (to be made in January 2017, or earlier if either party exercises its right under the agreement to advance the payment date) and savings in operational expenses and capital investments; however, such financial benefits are dependent on factors set forth in the related risk factor. See "Item 3D.2d The network sharing agreement entered into by Partner may not provide the anticipated benefits and may lead to unexpected costs. Network sharing and similar agreements entered into by our competitors may place us at a competitive disadvantage."

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

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

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

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

5A.1f Acquisition of 012 Smile

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

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

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

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

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

a) Trade name by NIS 14 million, recorded in selling and marketing expenses;

b) Customer relationships by NIS 73 million, recorded in selling and marketing expenses; and

c) Right of use by NIS 148 million, recorded in the cost of revenues.

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

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

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

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

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

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

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

Sensitivity Analysis:

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

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

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

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

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

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

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

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

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

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

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

5A.1h Bezeq Agreement

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

5A.1i Significant regulatory developments

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

5A.1j Revenues

We derive revenues from both rendering services and selling equipment.

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

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

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

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

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

5A.1k Cost of Revenues

The principal components of our cost of revenues are:

- Transmission, communication and content providers
- Cost of equipment and accessories
- Depreciation and amortization (including impairment)
- Wages, employee benefits expenses and car maintenance
- Operating lease, rent and overhead expenses
- Network and cable maintenance

Amortization of rights of use (including impairment)

- Costs of handling, replacing or repairing equipment
- Car kit installation, IT support, and general operating expenses
- Internet infrastructure and service providers ("ISPs")

5A.1l Selling and Marketing Expenses

The principal components of our selling and marketing expenses are:

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

5A.1m General and Administrative Expenses

The principal components of our general and administrative expenses are:

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

- Depreciation

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

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

5A.1o Other Income, Net

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

- Unwinding of trade receivables

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

5A.1p Finance Costs, Net

The principal components of our finance expenses are:

- Interest expenses
- Net foreign exchange rate losses

The principal components of our finance income are:

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

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

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

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

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

5A.1r Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. See also Note 4 to the consolidated financial statements.

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

(1) Estimating service revenues earned but not yet billed

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