

# Cellcom Israel

Company Presentation  
Q3'15



# FORWARD-LOOKING STATEMENTS

The following information contains, or may be deemed to contain forward-looking statements (as defined in the U.S. Private Securities Litigation Reform Act of 1995 and the Israeli Securities Law, 1968). In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or “continue,” the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial results, our anticipated growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause such differences include, but are not limited to: changes to the terms of our license, new legislation or decisions by the regulator affecting our operations, the outcome of legal proceedings to which we are a party, particularly class action lawsuits, our ability to maintain or obtain permits to construct and operate cell sites, and other risks and uncertainties detailed from time to time in our filings with the U.S. Securities and Exchange Commission, including under the caption “Risk Factors” in our Annual Report for the year ended December 31, 2014.

Although we believe the expectations reflected in the forward-looking statements contained herein are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We assume no duty to update any of these forward-looking statements after the date hereof to conform our prior statements to actual results or revised expectations, except as otherwise required by law.

# Israel<sup>(1)</sup>

- Population of 8.2 million; growing 1.9% annually
- Exchange rate is 3.8 NIS/USD
- 2014 GDP: \$290 billion (\$33K per Capita)
- S&P credit rating A+ (Stable)
- Low unemployment: 5.7%

# Telecom Market In Israel

The cellular market in Israel is highly competitive:

- 5 mobile network operators (MNOs) including 2 operators using national roaming
- 5 mobile virtual network operators (MVNOs).

2011



2015<sup>(1) (2)</sup>



**Retail price: 280 NIS**



**Retail price: 35-59 NIS**  
(Voice, SMS, Data)

(1) Marathon is expected to be awarded the 6th MNO license, after winning frequencies in the recent 4G frequencies tender.

(2) In November 2015, Cellcom entered an agreement for the purchase of 100% of Golan Telecom's shares. The agreement is subject to regulatory approvals. (see page 12)

# Telecom Market In Israel

- Dominated by two companies - Bezeq & Hot with 88% Telephony market share

(NIS 3.9 billion)

Low competition - the annual churn

rate in telephony is 15% compared to

the cellular churn of 34%

- High margins (HOT & Bezeq) - 58%

EBITDA margin (versus a 30%

cellular margin)

	Bezeq	HOT	Cellcom	Partner	Golan
TV	✓	✓	✓ (OTT)	X	X
Broadband	✓	✓	✓ (wholesale)	✓ (wholesale)	X
Telephony	✓	✓	✓ (VOB)	✓ (VOB)	X
Cellular	✓	✓ (National Roaming)	✓	✓	✓ (National Roaming)
ILD	✓	✓	✓	✓	✓

# Snapshot Cellcom Israel



# Cellcom Israel Group

## Snapshot June 2015

### Cellcom Israel - Israel's largest Cellular Operator

- 2.832M Subscribers<sup>(1)</sup>
- Largest market share of ~28%<sup>(2)</sup>
- Independent transmission network
- Leading brand in Israel's cellular market <sup>(3)</sup>

### Netvision - Leading ISP and ILD Company

- ISP Service for appx. 600K Households (30% market share)<sup>(2)</sup>
- Holds large market share in ILD
- Leading advanced communications solutions provider for business customers

(1) As of September 30, 2015

(2) Based on company estimations

(3) According to Globes 2012-2014 brand index (an Israeli financial daily paper)

# Offering our customers

## A large range of products



**Cellular services**



**Internet**



**Home Telephony**



**TV**



**International Calls**



**Internet Security**



**Cloud services**



**Transmission**



**Content**



**Hosting Services**

# Our Strategy

**Offering customers a broad range of mobile and wireline telecommunications services**

- ✓ Maximize our advantages as a communications group and offering additional services:
  - Television services over the internet
  - landline infrastructure and telephony services to the private sector<sup>(1)</sup>
- ✓ Taking aggressive efficiency measures in order to reduce costs

# Adjusting to Market Changes

- Reduction of head count
- Retailers commission reduction
- Reduction of advertising and sales promotion expenses
- IT Systems and building maintenance expenses reduction
- Warranty and repair services expenses reduction
- Reduction in walk in centers branches and office space

# Opportunities

# Golan Transaction Summary

- In November, Cellcom entered an agreement to purchase Golan Telecom's shares.<sup>(1)</sup>
- Total purchase price is NIS1.17 billion representing NIS 1.0 billion EV of Golan Telecom<sup>(2)</sup>
- The transaction represents a multiple of 5.0x FY2015 for Golan Telecom Adj. EBITDA<sup>(3)</sup>
- Cellcom currently expects to finance the transaction by:
  - Equity offering of NIS 200 million
  - Sellers' Convertible note of NIS 400 millions
  - Existing cash and new debt

(1) The Company estimates that the receipt of such approvals will be challenging and there is no certainty that such approvals will be granted.

(2) NIS 0.16 billion working capital adjustments and tax shield. Golan's financial and operational information included in this press release was prepared by Golan and provided to the Company as part of Golan's representations in the Agreement

(3) Adjusted EBITDA before national roaming costs calculated annually based on the first 8 month of 2015

*For description of the main terms of the transaction see the Company's current report regarding the transaction on Form 6-K, dated 05/11/2015.*

# Television Market Overview

- Highly penetrated with levels above most developed economies.
- Two large Multichannel pay-tv incumbents and Cellcom Israel as a newcomer with hybrid OTT-DTT service.
- The incumbents price levels are relatively high at between \$60-120 per month.<sup>(1)</sup>
- The company offers OTT-TV services for 25\$
- 50,000 TV customers as of September 2015

<sup>(1)</sup> Yes and HOT average market prices Q3'15, Hot & YES offer narrow packages with average price of 30\$

# Television Market

## Cellcom tv - A new TV experience

### Our offer to the Israeli Market includes:

- ✓ Linear channels based on the Israeli Digital terrestrial broadcasting
- ✓ Video on Demand library subscription
- ✓ Live and catch up sports application
- ✓ Access to internet video content from selected internet sites
- ✓ Music streaming service
- ✓ An improved and advanced user experience
- ✓ Highly competitive price

# Leading telcos over the world are using hybrid solutions



# Wholesale Market

## Regulation highlights:<sup>(1)</sup>

- Bezeq and Hot to offer wholesale land line service
- Bezeq is selling it's infrastructure with maximum prices of:
  - 39.9 NIS/Month - Access fees
  - 32 NIS/Month per 1MB Bandwidth (needs to be calculated with load factor)
  - 0.01 NIS per minute (subject to a hearing process)
  - 449 NIS/Month per Kilometer of dark fiber
  - 396 NIS/Month per Kilometer of pipe
- Cancellation of certain structural separations within 9 months from wholesale agreement, unless considerably detrimental to the competition or the public.

(1) Additional issues are subject to a hearing process and its final outcome cannot be assessed at this point.

# Wholesale Market

## Cellcom's Opportunity

Key advantages of Cellcom which are expected to facilitate expansion into the landline business :

Triple play package - the first of its kind in Israel providing Cellcom tv, Internet access, infrastructure and telephony for a highly competitive price

- Excellent sales skills and strong brand
- Large subscriber base: 2.8 million cellular subscribers,<sup>(1)</sup>  
appx. 30% market share in ISP market and appx. 150 thousand VOB subs<sup>(2)</sup>
- Leveraging the fiber network infrastructure (appx. 1,750 KM of fiber optic infrastructure) together with the wholesale market aiming to increase market share in the business sector

(1) As of September 30, 2015

(2) As of December 31, 2014

# Network Sharing

Cellcom Israel entered network sharing agreements<sup>(1)</sup> with Pelephone. A co-operation agreement regarding maintenance services and unification of passive elements of cell sites through a common contractor

**Opportunity to cut cost in the long term**

# Financial and Operational Results

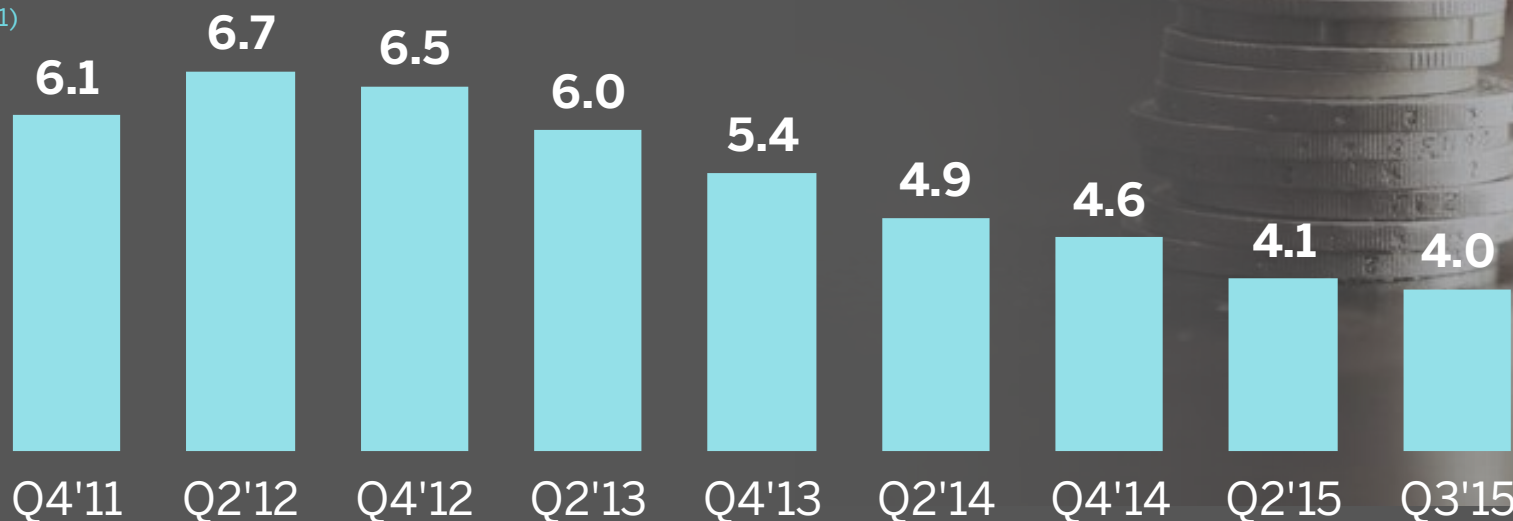


# Decreasing Leverage

The company substantially reduced the level of financial debt

Financial Debt<sup>(1)</sup>

B'Nis

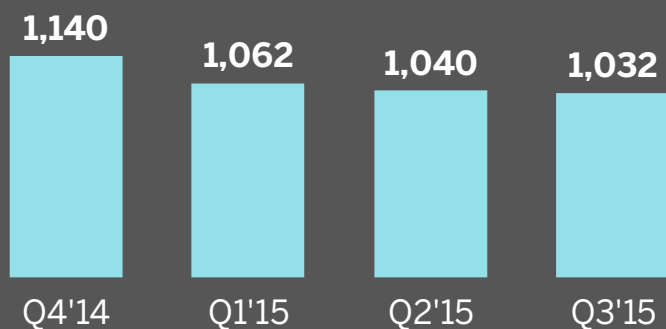


(1) The figures are based on company reports for the relevant quarters

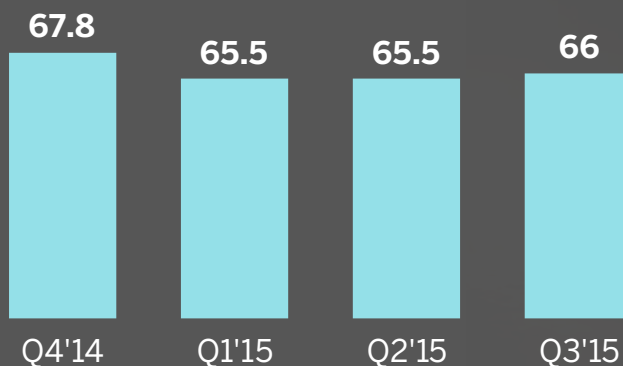
# Financials

## Last 4 Quarters<sup>(1)</sup>

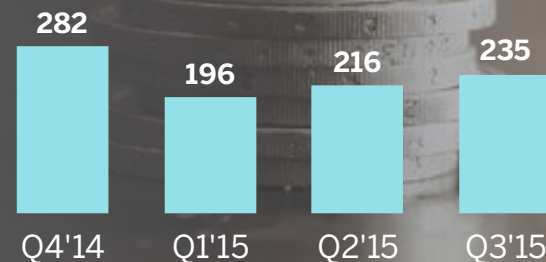
Revenues M'Nis



ARPU Nis



EBITDA<sup>(2)</sup> M'Nis



(1) The figures are based on company reports for the relevant quarters

(2) The results for the second quarter of 2015 include a one-time effect of NIS 25 million in Other Expenses regarding a voluntary retirement plan. The results for the second quarter of 2014 include two one-time effects, the first is a decrease by NIS 22 million in Cost of Revenues and the second is an increase in Other Expenses by NIS 39 million

# Debt Structure<sup>(1)</sup>

as of September 30, 2015

Series Name	Amount	Coupon	Duration	Linkage	Yield to Maturity(1)
Series B	445	5.30%	0.77	CPI Linked	2.01%
Series D	703	5.19%	1.23	CPI Linked	1.58%
Series E	327	6.25%	0.74	Fixed	1.23%
Series F	737	4.60%	2.85	CPI Linked	2.07%
Series G	285	6.99%	2.18	Fixed	1.97%
Series H	950	1.98%	5.63	CPI Linked	3.26%
Series I	558	4.14%	5.69	Fixed	4.61%
<b>Total</b>	<b>4,004</b>				

(1) In May and August 2015, respectively, Cellcom entered into a loan agreement with Israeli financial institutions, or Lenders, and an Israeli bank, or Bank, respectively, according to which the Lenders and Bank have agreed, subject to certain customary conditions, to provide the Company two deferred loans for the total principal amount of NIS 400 million, and a deferred loan in a principal amount of NIS 140 million, respectively, all unlinked.

# Financial highlights

## Q3'15 Vs. Q3'14

	Q3'15 (M NIS)	Q3'14 (M NIS)	yoy %
Total Revenues	1,032	1,142	(9.6%)
Service Revenues	789	880	(10.3%)
Equipment Revenues	243	262	(7.3%)
EBITDA <sup>(1)</sup>	235	346	(32.1%)
EBITDA Margin <sup>(1)</sup>	22.8%	30.3%	(23.2%)
Net Income <sup>(1)</sup>	40	106	(62.3%)
Free Cash Flow	127	303	(58.0%)
Cellular ARPU	66.0	70.6	(6.5%)
Cellular Churn %	10.1%	11.0%	(8.2%)

(1) The results for the third quarter of 2014 include a one-time positive effect regarding a reduction of a provision for cell-sites rent expenses in the amount of NIS 44 million

# Financial highlights

## Q3'15 Vs. Q2'15

	Q3'15 (M NIS)	Q2'15 (M NIS)	QoQ %
Total Revenues	1,032	1,040	(0.8%)
Service Revenues	789	786	0.4%
Equipment Revenues	243	254	(4.3%)
EBITDA <sup>(1)</sup>	235	216	8.8%
EBITDA Margin <sup>(1)</sup>	22.8%	20.8%	9.6%
Net Income <sup>(1)</sup>	40	12	233.3%
Free Cash Flow	127	119	(6.2%)
Cellular ARPU	66.0	65.5	0.8%
Cellular Churn %	10.1%	10.2%	(1.0%)

(1) The results for the second quarter of 2015 include a one-time expense in a total amount of NIS 25 million as a result employee retirement plan

# Contact us

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