

The future is bright.  
The future is orange



**Company Presentation & Q3'14 Update**



# Safe harbor statement

This presentation includes forward-looking statements within the meaning of Section 27A of the US Securities Act of 1933, as amended, Section 21E of the US Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995. Words such as "believe", "anticipate", "expect", "intend", "seek", "will", "plan", "could", "may", "project", "goal", "target" and similar expressions often identify forward-looking statements but are not the only way we identify these statements. All statements other than statements of historical fact included in this press release regarding our future performance, plans to increase revenues or margins or preserve or expand market share in existing or new markets, reduce expenses 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 recent and future regulatory actions (specifically, whether the frequencies needed for 4G operation will be allocated, as well as whether the regulations for the wholesale fixed-line market will be appropriately developed and applied) and whether the network sharing agreement with HOT Mobile will be approved without substantial modification, as well as consumer habits and preferences in cellular telephone usage, trends in the Israeli telecommunications industry in general, and the impact of global economic conditions. Future results may differ materially from those anticipated herein. For further information regarding risks, uncertainties and assumptions about Partner, trends in the Israeli telecommunications industry in general, the impact of current global economic conditions and possible regulatory and legal developments, and other risks we face, see "Item 3. Key Information - 3D. Risk Factors", "Item 4. Information on the Company", "Item 5. Operating and Financial Review and Prospects", "Item 8. Financial Information - 8A. Consolidated Financial Statements and Other Financial Information - 8A.1 Legal and Administrative Proceedings" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk" in the Company's Annual Reports on Form 20-F filed with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

# Company overview

# The future is bright. The future is orange™

## **Strong execution – continued investment in the business**

- Most advanced network
- No. 1 in customer service
- Network sharing agreement
- Best company to work for

## **Defined strategy to meet market challenges**

- Growth engines – equipment revenues, value added services, television, wholesale market
- Successful two-brand strategy
- Operational efficiencies & excellence
- Technology leadership

## **Financial strength**

- Reducing debt
- Efficiency measures

## **Value-added controlling shareholder**

- Expertise in media, telecom and entertainment
- Long term perspective

# A comprehensive product offering



Cellular services



Content Services



Comm Devices  
& Accessories



Repair Services



Cloud services



Hosting



Transmission



Home Telephony



ISP



International Calls



Internet Security

Products and services are offered under the orange and / or 012 brands

# Our strategy

## Customer Centric

- Excellence in enhancing the customer experience
- Multi-channel
- Policy of transparency and fairness

## Dual Branding

- orange™ - premium brand
- 012 – “value for money” brand

## Total comm's company

- Comprehensive value proposition in the field of communications, which includes cellular, fixed, data and content

## Innovation & tech leadership

- First in launching Orange 4G
- Developing growth engines and entering new markets (wholesale market, TV and advanced products)

## Operational Excellence

- Optimizing synergies between the organization's units
- Network sharing agreement
- Culture of constant improvement

## Human capital

- Employee nurturing
- Unique organizational culture

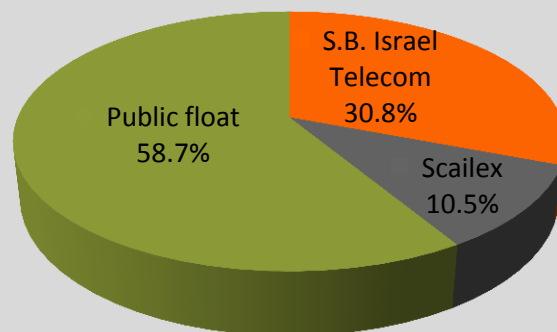


# Future savings from network sharing agreement with HOT Mobile

- Network sharing agreement business model
  - HOT Mobile to pay one-time amount by 2017
  - CAPEX – shared equally
  - OPEX – 50% shared equally and 50% split based on traffic
- Key benefits
  - Savings in CAPEX and OPEX
  - Smaller number of network sites
  - Improved network coverage and capacity
  - Optimal utilization of existing spectrum
- National roaming agreement in place until NSA business model is implemented

# Value-added controlling shareholder

- S.B. Israel Telecom Ltd. is an affiliate of Saban Capital Group, Inc. ("SCG"). SCG is a leading private investment firm based in Los Angeles specializing in the media, entertainment, and communication industries.
- SCG, founded by Haim Saban, is a global media and communications private investment firm. Among its current and prior investments are: Univision (the premier Spanish-language media company in the US); Celestial Tiger Entertainment (a venture with Lionsgate and Astro, Malaysia's largest pay TV platform, to launch and operate new branded pay television channels across Asia); MNC (Indonesia's largest and only vertically-integrated media company); Sky Vision (Indonesia's largest Pay TV platform) and Partner Communications. With offices in Los Angeles, London and Singapore, SCG actively manages a globally diversified portfolio of investments across public equities, credit, alternative investments, and real property assets.



As of October 31, 2014

\* Public float includes Phoenix-Excellence Group (6.84%) and Psagot Investment House (5.05%)



# Market overview

# Highly competitive cellular market

2011



Partner Q3'11 ARPU: NIS 111

2014



Partner Q3'14 ARPU: NIS 76

# Industry update – main regulatory issues\*

<b>Wholesale market</b>	Ability to competitively provide broadband infrastructure; regulation and implementation expected in 2015
<b>LTE tender</b>	Ability to purchase sufficient bandwidth to provide quality 4G services; tender expected by end of 2014
<b>TV / Schejter Committee</b>	Ability to competitively provide TV services; regulation and implementation expected in 2015
<b>International calls</b>	Proposed regulation may decrease the number of international calls routed through 012 and adversely impact revenues
<b>Roaming</b>	Proposed regulation would allow a cellular subscriber to receive roaming services abroad from any operator while keeping his cellular number without changing providers
<b>Premium calls</b>	New regulation sets price limitations and requires opting in which may negatively impact revenues (effective Oct. 2014)

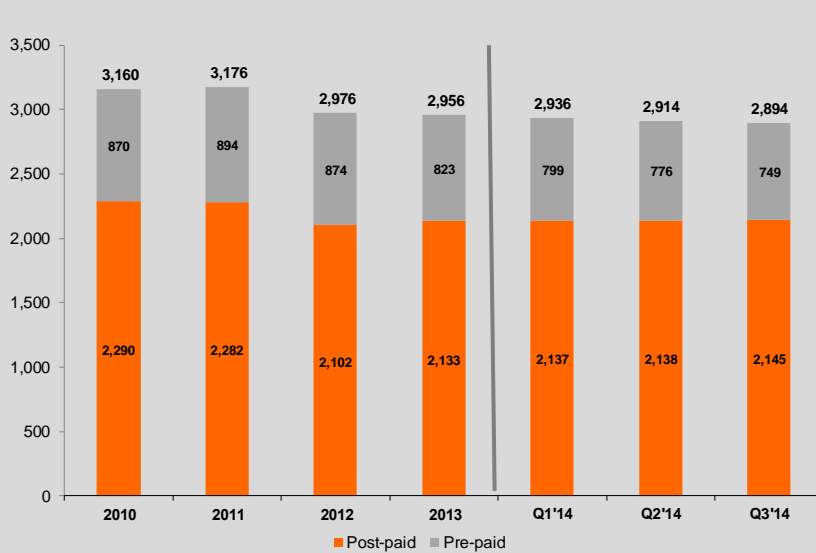
# Quarterly update

# Q3 2014 highlights

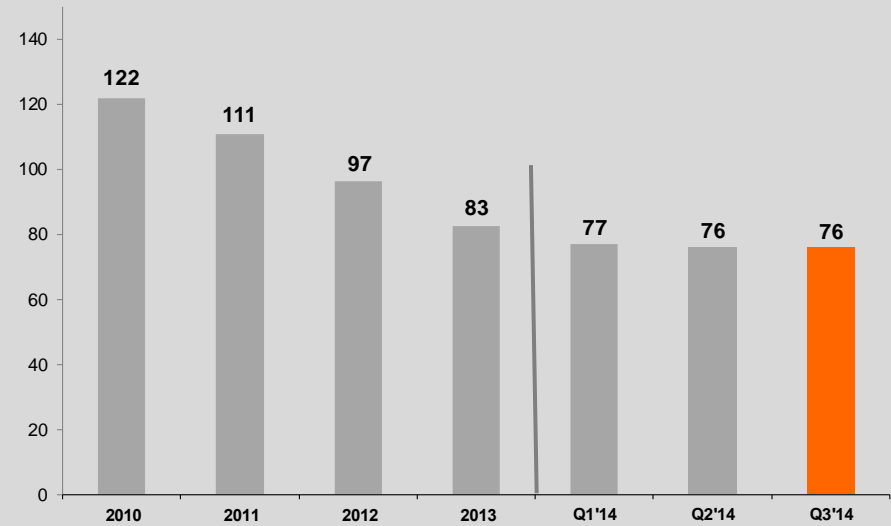
	<u>Q3' 14</u>	<u>Q3' 13</u>	<u>YoY change</u>
Total revenue (NIS, M)	1,102	1,118	-1%
Service revenue (NIS, M)	862	951	-9%
Equipment revenue (NIS, M)	240	167	+44%
EBITDA (NIS, M)	282	284	-1%
EBITDA margin	26%	25%	+1 ppt
Profit (NIS, M)	40	38	+5%
Free cash flow (NIS, M)	112	273	-59%
Cellular ARPU (NIS)	76	84	-10%
Quarterly churn rate	12.0%	8.8%	+3.2 ppt

# Challenging market environment

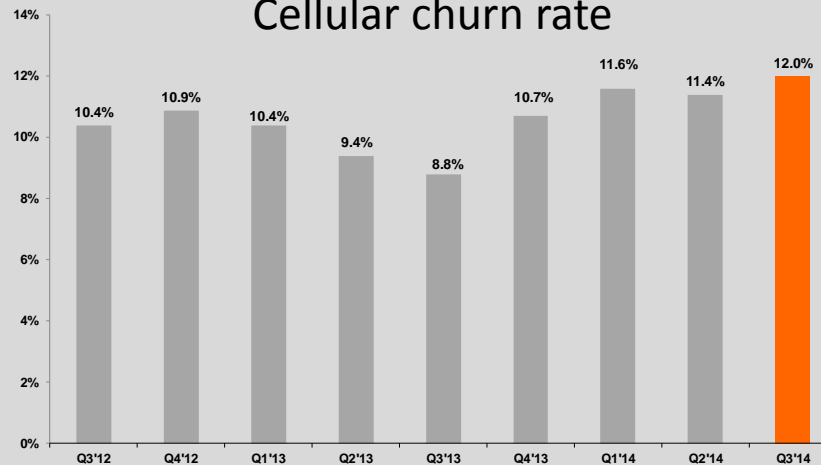
Cellular subscribers (EOP, in thousands)



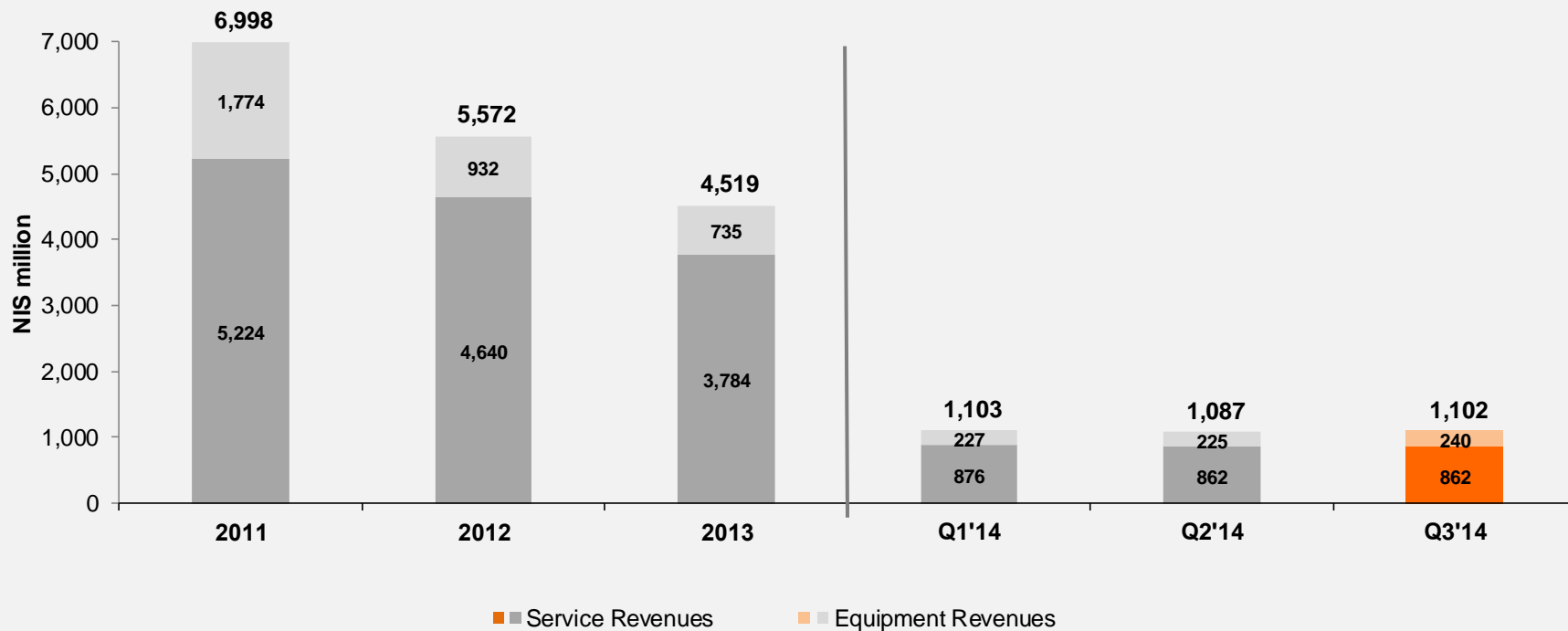
Cellular ARPU (in NIS)



Cellular churn rate



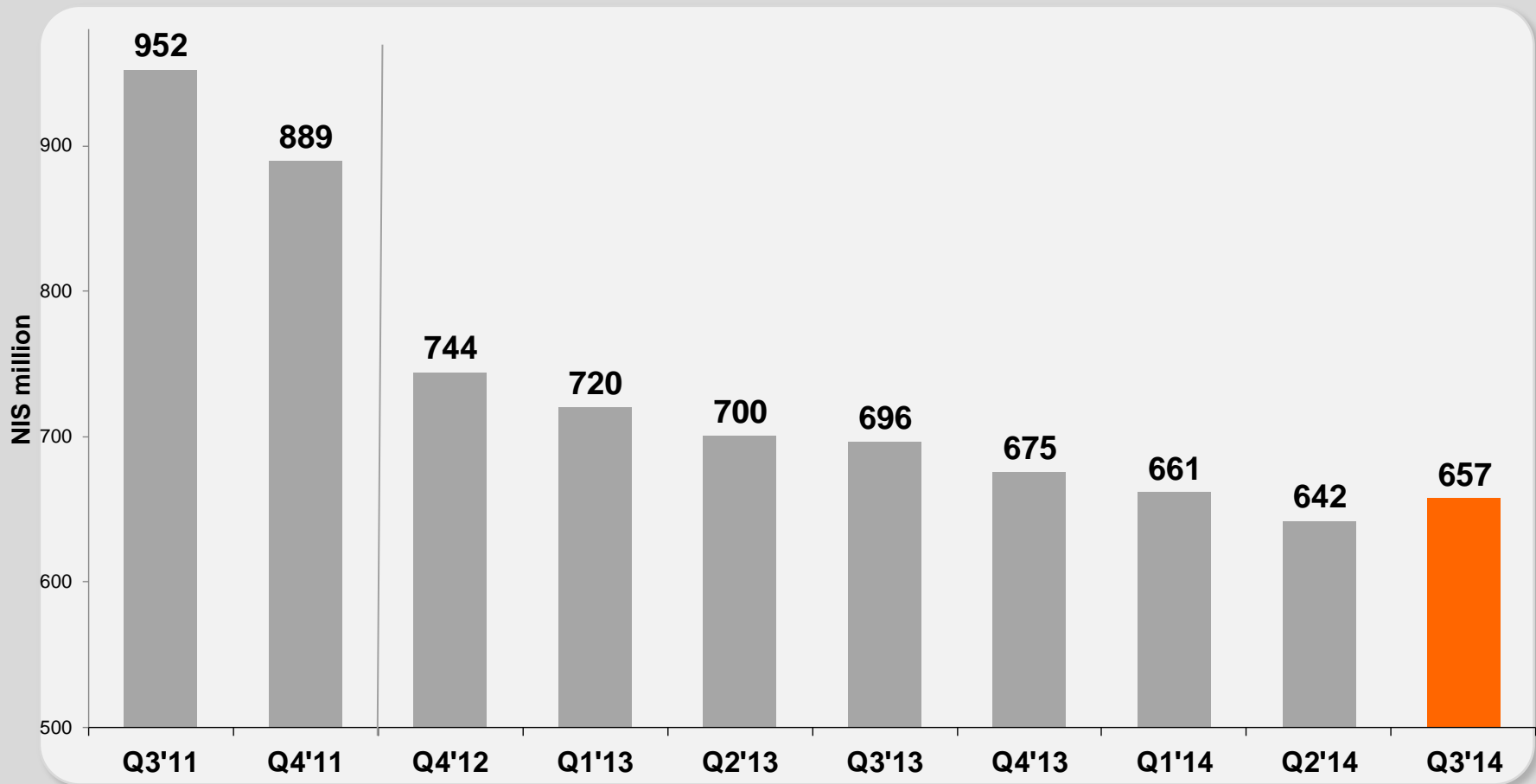
# Diversifying revenue sources



Results include 012 Smile from March 2011

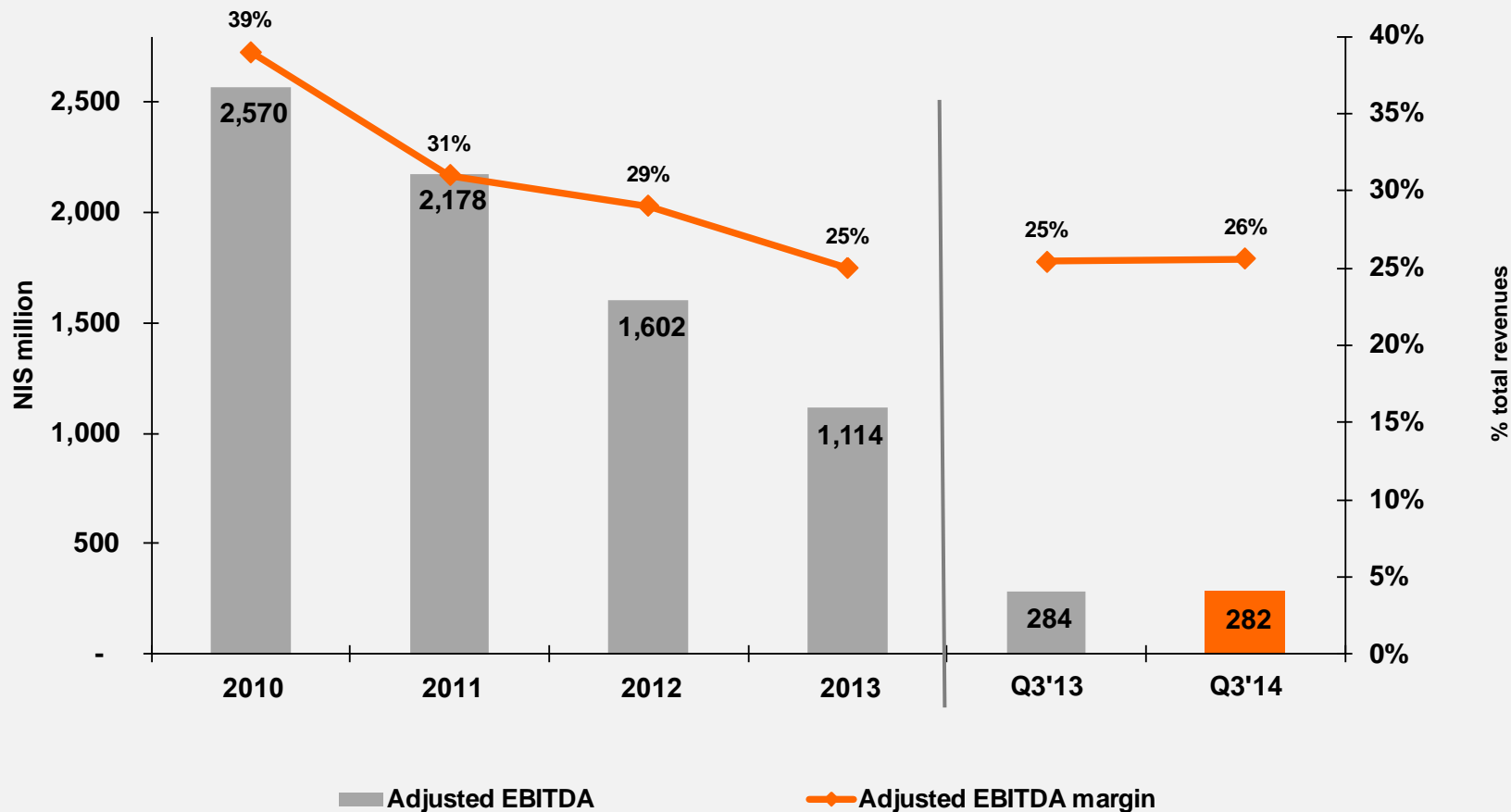


# Successful implementation of efficiencies



OPEX includes cost of service revenues, and selling, marketing and administrative expenses, and excludes depreciation and amortization and impairment charges.

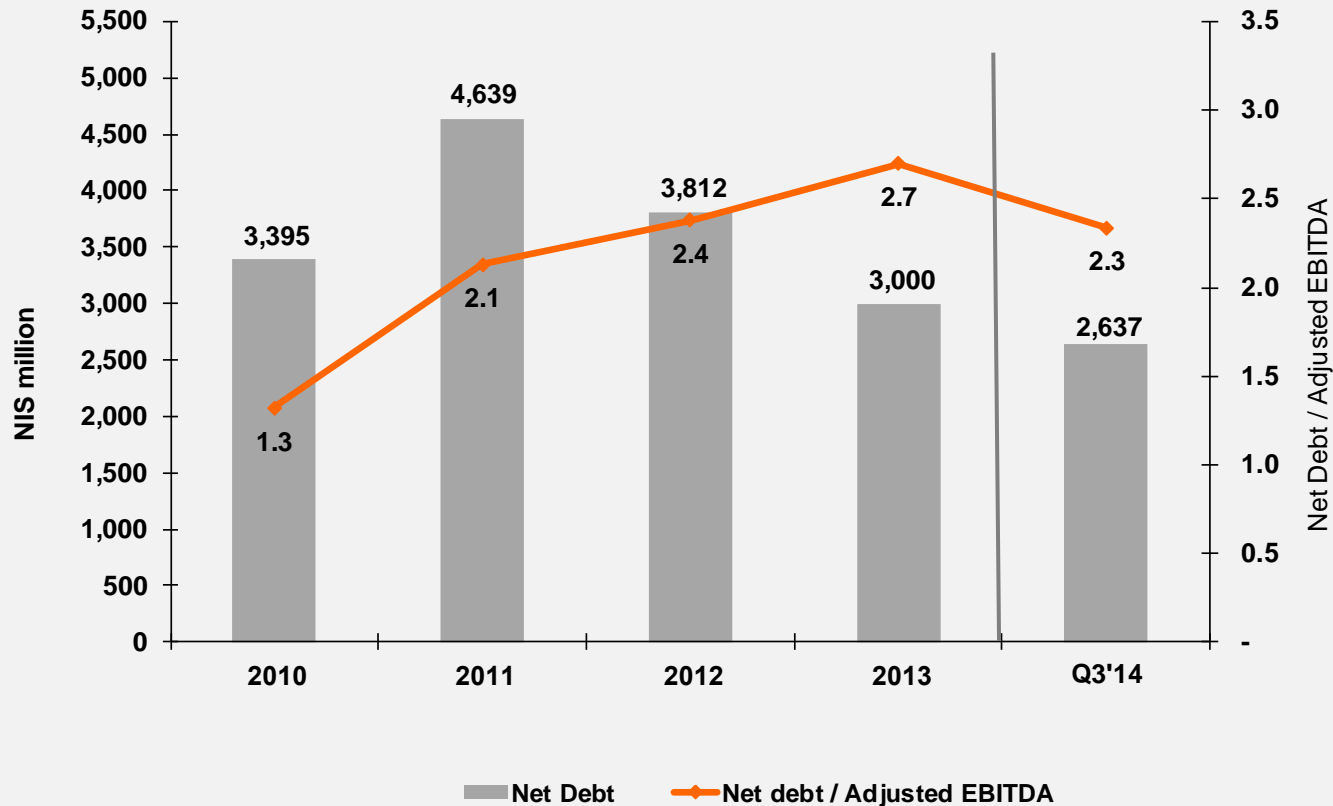
# EBITDA\* & EBITDA margin



Results include 012 Smile from March 2011

\* Adjusted EBITDA represents earnings before interest (finance costs, net), taxes, depreciation, amortization (including amortization of intangible assets, deferred expenses-right of use, and share based compensation expenses) and impairment charges, as a measure of operating profit. Please refer to the section Use of non-GAAP financial measures section in the Company's quarterly press release

# Cutting debt levels



\* Adjusted EBITDA represents earnings before interest (finance costs, net), taxes, depreciation, amortization (including amortization of intangible assets, deferred expenses-right of use, and share based compensation expenses) and impairment charges, as a measure of operating profit. Please refer to the section Use of non-GAAP financial measures section in the Company's quarterly press release

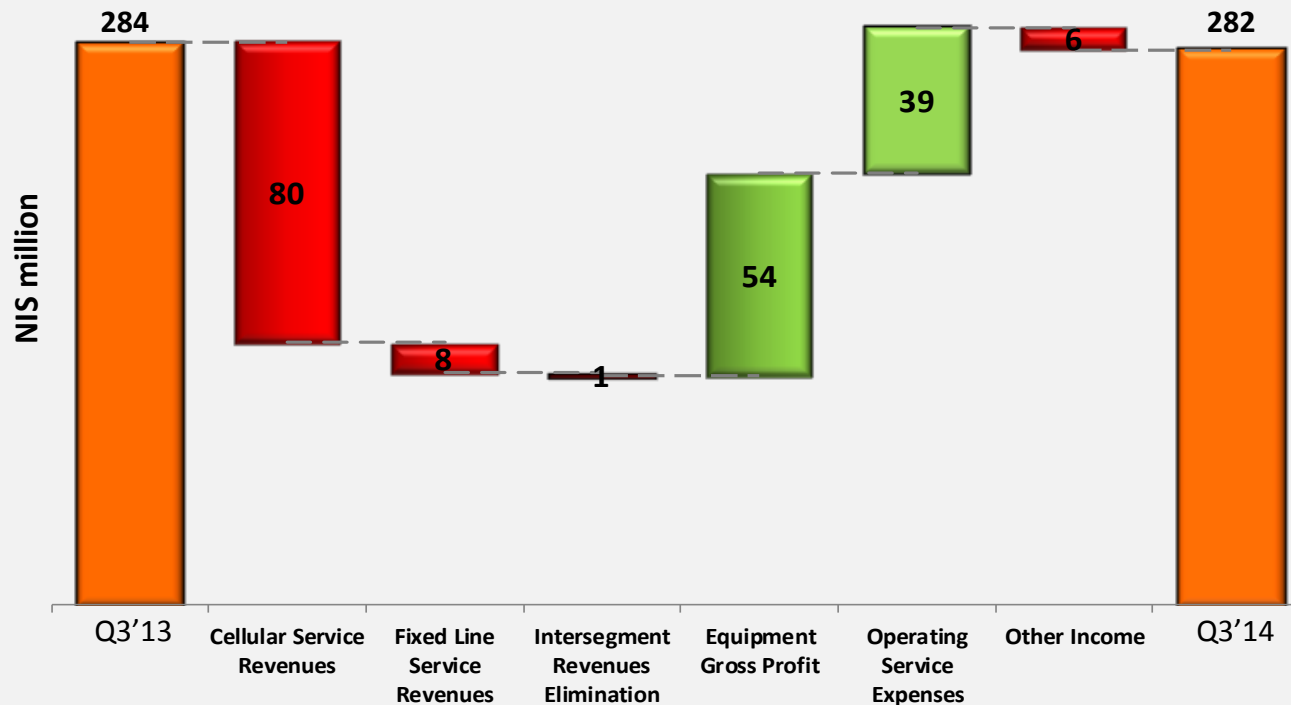
# Debt Structure (as of September 30, 2014)

Series	Amount (NIS M)*	Coupon	Duration	Linkage	Annual Yield to Maturity (a/o 30/9)
Series B	366	3.4%	1.15	CPI	1.1%
Series C	704	3.35%	3.1	CPI	0.9%
Series D	546	MAKAM + 1.2%	5.1	Variable interest Makam	1.5%
Series E	748	5.5%	1.7	Fixed	1.1%
Bank debt	1,035				
<b>TOTAL</b>	<b>3,399</b>				

\* Excluding offering expenses and discounts

# Addressing impact of price erosion

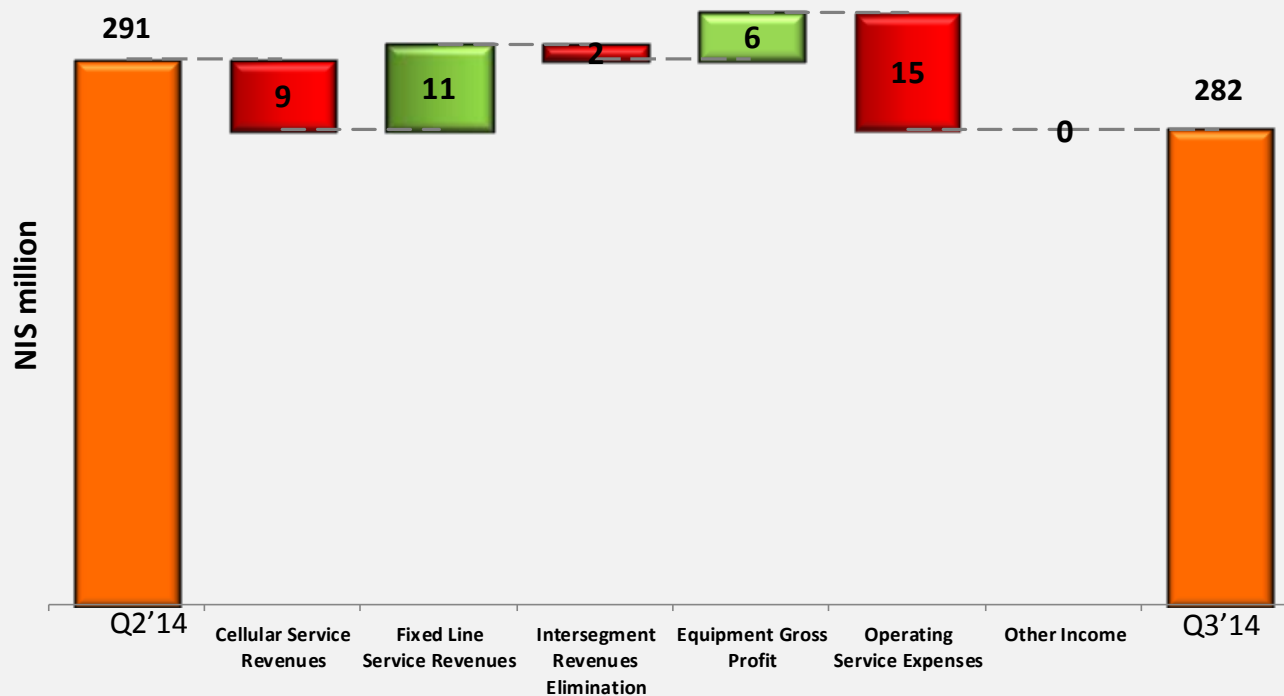
Adjusted EBITDA\* evolution Q3'13 vs. Q3'14



\* Adjusted EBITDA represents earnings before interest (finance costs, net), taxes, depreciation, amortization (including amortization of intangible assets, deferred expenses-right of use, and share based compensation expenses) and impairment charges, as a measure of operating profit. Please refer to the section Use of non-GAAP financial measures section in the Company's quarterly press release

# Bridging EBITDA results

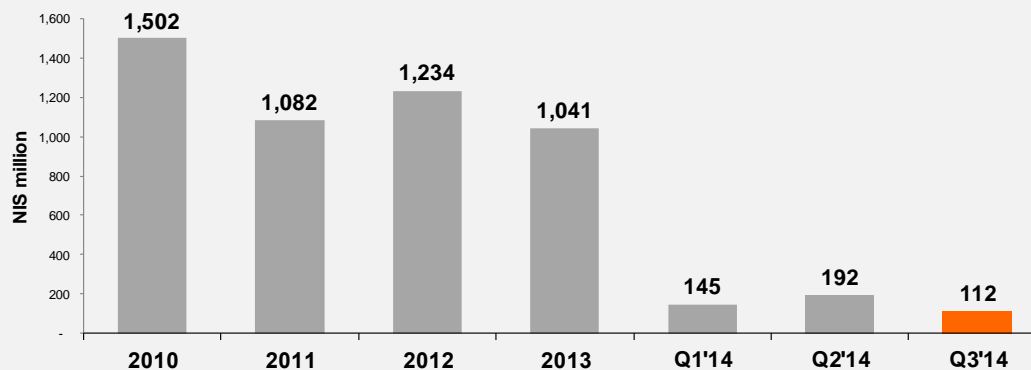
Adjusted EBITDA\* evolution Q2'14 vs. Q3'14



\* Adjusted EBITDA represents earnings before interest (finance costs, net), taxes, depreciation, amortization (including amortization of intangible assets, deferred expenses-right of use, and share based compensation expenses) and impairment charges, as a measure of operating profit. Please refer to the section Use of non-GAAP financial measures section in the Company's quarterly press release

# Solid balance sheet & cash flow\*

<b>Assets</b>	NIS million	<b>Liabilities and Equity</b>	NIS million
Cash and cash equivalents	749	Current maturities of Notes payables and loans	309
Trade receivables and other	938	Trade payables	682
Inventories	110	Other current liabilities	274
<b>Total Current Assets</b>	<b>1,797</b>	<b>Total Current Liabilities</b>	<b>1,265</b>
Trade receivables and other	491	Long term borrowings	3,077
Property and equipment	1,655	Other liabilities	95
Goodwill	407	<b>Total Long-term Liabilities</b>	<b>3,172</b>
Intangible assets	1,103	<b>Equity</b>	<b>1,016</b>
<b>Total Long-term Assets</b>	<b>3,656</b>		
<b>Total Assets</b>	<b>5,453</b>	<b>Total Liabilities and Equity</b>	<b>5,453</b>



\* Free cash flow represents cash flows generated from operating activities before interest payments, net of cash flows used for investments activities, after elimination of cash flows used for the acquisition of 012 Smile. Please refer to the section Use of Non-GAAP Financial Measures in the Company's quarterly press release



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