

"Bezeq" The Israel Telecommunication Corp., Ltd.



Event Transcript

Q2 2021 Financial Results

Thursday, August 12th, 2021, 15:00 Israel Time

DISCLAIMER

This document includes a transcript of the conference call held on the above date regarding the Company's financial results for the second quarter of 2020, following the publication of the Company's financial statements at that date, as well as the publication of the Company's investor presentation filed under the Israeli Securities Law 1968 ("Securities Law").

This document includes statements made at that conference call and accordingly contains only partial information regarding the Company's financial results and the Company's periodic reports published under the Securities Law. The reports can be accessed at the Israeli Securities Authority's website, www.magna.isa.gov.il. A review of this transcript and/or the aforementioned investor presentation published by the Company is not a substitute for a review of the detailed reports of the Company under the Securities Law and is not meant to replace or qualify the full reports. The Company is not responsible for the accuracy or completeness of the information contained in this document. This transcript does not constitute an offer or invitation to purchase or subscribe for any securities of the Company, and neither this transcript nor anything contained herein shall form the basis of, or be relied upon in connection with any contract or commitment whatsoever.

Q2 2021 Financial Results

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Bezeq's second quarter 2021 results conference call. All participants are at present in a listen-only mode. Following management's formal presentation instructions will be given for the question and answer session. For operator assistance during the conference, please press * 0. As a reminder this conference is being recorded and broadcasted over the web. At this time I would like to turn the call over to Mr. Naftali Sternlicht, Investor Relations Manager for Bezeq. Mr. Sternlicht please go ahead.

Naftali Sternlicht (IR Manager, Bezeq):

Thank you, operator. Welcome everyone and thank you for joining us on the call today. With us from Bezeq Group's senior management team we have: Mr. Gil Sharon, Bezeq's Chairman, Mr. Dudu Mizrahi, Bezeq Fixed-Line's CEO, Mr. Ran Guron, CEO of Pelephone, Bezeq International and yes, and Mr. Tobi Fischbein, Bezeq Group's CFO.

Before we start, I would like to draw your attention to the Safe Harbor statement on Slide number 2, which also applies to any statement made during today's call. The speaker's comments will generally follow the slide presentation, which is available under the Slides tab on the webcast link and may also be downloaded from Bezeq's IR website. You can go through the presentation by clicking on the arrows on the left or right hand side.

Let me now turn the call over to our Chairman, Mr. Gil Sharon for prepared remarks. Tobi will then continue the presentation on group financial highlights, followed by Dudu discussing Bezeq fixed line results. Ran will pick up with results of our subsidiaries, after which management will be available to answer questions.

Gil Sharon (Chairman, Bezeq Group): Thank you, Naftali. Turning to Slides 3 through 5 – The strategic vision of the Bezeq Group has always been to be the leader of the Israeli telecommunications market, providing a full range of products and services for the residential and business markets. Toward that vision, we are focusing our management attention and resources on the following:

1. Accelerated deployment of fiber optics for the residential sector as a growth engine, while continuing to strengthen our position in the business sector.
2. Focusing on customer premises through a combination of fiber infrastructure and related products. In the first half of 2022, Bezeq Fixed Line will be able to

offer a unified broadband service including infrastructure and ISP services and yes will offer triple play based on Bezeq's fiber network via wholesale.

3. Structural change - Bezeq's Board of Directors approved the spin-off of the ICT business division into a new and separate company, and the merger of Bezeq International's private sector ISP operations into yes, following approval of the Minister of Communications. The new ICT company will allow management to focus on realizing its potential in the IT market. The Israeli IT market size is estimated to be approximately 8 billion dollars per year and growing rapidly. Bezeq International has a significant presence in this market with revenues of hundreds of millions of shekels per year. The new company aims to combine organic growth with targeted acquisitions. The merger of Bezeq International's consumer activities into yes will allow us to implement, for the first time, an effective triple play strategy based on yes's strong brand and quality TV product together with Bezeq's fiber infrastructure, supporting growth for the Group in the residential sector.
4. Lastly, Pelephone will focus on marketing 5G as a growth engine to increase revenues and ARPU.

On the financial side, revenues grew 2.1% year-over-year to 2.2 billion shekels for the second quarter. Adjusted net profit increased 20.6% year-over-year to 304 million shekels. Meanwhile, net debt decreased by 877 million shekels and coverage ratios improved. It is also worth noting that Bezeq recently issued a comprehensive corporate responsibility report, and we can already see its highly positive impact on improving Bezeq's ESG scores. We will continue to showcase Bezeq's environmental, social, and governance efforts.

At Bezeq Fixed Line, we grew adjusted net profit by 8.9% year-over-year while continuing to improve key operating metrics. We are going full speed ahead with our massive deployment of fiber. As of today, more than 700,000 households throughout Israel are ready to be connected to our network, only six months after the initial launch. At the subsidiary companies, we grew Pelephone postpaid subscribers, improved free cash flow in yes and increased yes IP subscribers.

Now let me turn the call to Tobi to discuss our financial results.

Tobi Fischbein (CFO, Bezeq Group): Thank you, Gil. Let's turn to Slide 7 – Revenues in the second quarter of 2021 totaled 2.2 billion shekels compared to 2.16 billion shekels in 2020, an increase of 2.1%, primarily due to an increase in revenues in Pelephone and Bezeq Online.

Meanwhile, group-wide operating expenses increased year-over-year, primarily due to the initial recognition of expenses for the universal fund for fiber deployment, the COVID-19 positive impact in last year's second quarter and the deployment of fiber in the current quarter. Pelephone's expenses also increased mainly due to the increase in handset revenues.

Salary expenses were 467 million shekels, up 5.2%, primarily due an increase in salary expenses in Bezeq Fixed-Line because of the recognition of stock-based compensation, among other factors, and an increase in Pelephone due to lower expenses in Q2 2020 because of employees furloughed due to COVID-19.

Turning to Slide 8 – Adjusted EBITDA in the second quarter totaled 944 million shekels compared to 951 million shekels in 2020, a decrease of 0.7%. Group-wide adjusted net profit in the second quarter totaled 304 million shekels compared to 252 million shekels in 2020, an increase of 20.6%, primarily due to the decrease in financing expenses in Bezeq Fixed-Line due to the early repayment of debt in the corresponding quarter.

Gross CAPEX in the second quarter totaled 418 million shekels compared to 351 million shekels in 2020, an increase of 19.1%. The increase was due to higher investments in Bezeq Fixed-Line's fiber deployment project.

Free cash flow in the second quarter totaled 85 million shekels compared to 144 million shekels in 2020, a decrease of 41.0%. The decrease in free cash flow was primarily due to increased capital expenditures from the deployment of fiber optics and a 40 million shekel special grant paid to Bezeq Fixed-Line employees in April.

As you can see on Slide 9, we posted strong results in the first half of the year with a 1.8% growth in revenues, which reached 4.4 billion shekels, and 4.5% growth in adjusted net profit, which totaled 603 million shekels. Free cash flow was 408 million shekels in the first half of 2021, down 29.6% due to higher capex as well as tax payments in the beginning of the year, among other factors.

On Slide 10 – We have broken down subscribers and ARPU by different business segments. Let me point out that subscribers in cellular and retail broadband segments

moved up during the quarter, and retail broadband ARPU grew to 106 shekels, compared to 98 shekels in the second quarter of 2020.

Turning to Slide 11 – We are adapting operations to evolving market conditions and continue to improve our debt profile. Of particular note this past quarter is the 12% year-on-year decrease of net debt, as well as the decrease in net debt to adjusted EBITDA leverage ratio, from 2.3 in the second quarter of 2020 to 2.0 in the second quarter this year. In addition, the outlook of our debt ratings remains stable.

Lastly, on Slide 12 – For the 2021 fiscal year ending on December 31st, 2021, currently we continue to forecast group-wide adjusted net profit of 1 billion shekels, adjusted EBITDA of 3.5 billion shekels and CAPEX of 1.7 billion shekels.

Now Dudu will share with you updates on Fixed Line operations.

Dudu Mizrahi (CEO, Bezeq Fixed Line): Thanks Tobi. We finished another strong quarter with stable overall revenues despite the decrease in telephony revenues. We are seeing growth in our retail broadband Internet subscriber base, alongside an impressive 8.2% increase in ARPU. These are driven by the value our services and products bring to our customers. In the business segment, we continue to post significant gains, with a 10% increase year-over-year in revenues from transmission and data, and 8.6% year-over-year growth in revenues from digital and cloud services.

During the quarter, we continued full-speed ahead with our fiber-optic roll-out project. Turning to Slide 15 – as of now, Bezeq's fiber network already reaches 718,000 Israeli households, an unprecedented roll-out pace in the world. We continue to expect to connect one million households by the end of the year. During the quarter, we also launched our 2.5 Gbps offering, along with a range of services and products tailored to our fiber-optic network. These offerings will allow our customers to enjoy the fastest and best broadband Internet experience.

On Slide 16 – As we continue to upgrade Internet speed, key metrics of our broadband services are showing results. Revenues from broadband services were stable year-over-year due to growth in retail subscribers and ARPU offset by the decrease in wholesale tariffs and subscribers. The number of retail broadband lines grew for the fifth consecutive quarter while retail ARPU grew both quarter-over-quarter and year-over-year. Our Internet is the only product in the Israeli telecommunications market with a growing ARPU, while we are constantly adding new services and products for our customers.

On Slide 17 – Our full Wi-Fi strategy, which focuses on improving the broadband experience at home, continued to prove itself. As of today, 621,000 customers were using the advanced Be router, appropriate for the fiber age, with another 313,000 customers benefitting from Wi-fi enhancers. The numbers continue to go up in both cases.

On Slide 18 – The decrease in revenues and the number of access lines from telephony services were due to the lower impact of COVID-19.

Turning to the next Slide – We saw continued revenue growth across all segments in the transmission & data and cloud & digital services segments. Quarterly revenues for the transmission & data segment were up 10% year-over-year due to an increase in revenues from transmission services for ISPs and business customers. Quarterly revenues for the cloud & digital segment were up 8.6% year-over-year due to an increase in virtual exchanges and cloud services for businesses.

Turning to Slide 20 – Expenses increased year-over-year for the quarter. The increase in salaries was due to recognition of stock-based compensation in the second quarter, among other factors. Operating expenses were impacted by the recognition of expenses of 10 million shekels for the universal fund for fiber deployment, lower base in the prior year quarter due to COVID-19 and the deployment of fiber in the current quarter.

On the next two Slides – Adjusted net profit in the quarter totaled 248 million shekels, up 8.9% year over year. Free cash flow was 45 million shekels, down 64.3% due to increased capital expenditures from the deployment of fiber optics and a 40 million shekel special grant to employees. On a half year basis, revenues and adjusted net profit were both up year-over-year and free cash flow was down due to an agreement with the Tax Authority resulting in higher tax payments.

In summary, we are at the start of an exciting and challenging time, as we get ready to launch innovative services and products, which will revolutionize Internet capabilities in every household in Israel.

Google recently announced a new international cable which will allow ultra-high bandwidth connections between Europe and India and will pass through Israel. We are proud to have been chosen to implement the local segment of this complicated, groundbreaking project. This is a tremendous vote of confidence, and we are privileged to be part of a multi-national project alongside some of the largest names in the industry.

With that, I'll now turn the call to Ran to talk about Bezeq's subsidiaries.

Ran Guron (CEO Pelephone, yes and Bezeq International): Thanks, Dudu. Turning to Slides 25 to 27 - We had a quarter of very strong results. In Pelephone, we saw growth across all financial metrics – revenues, profits, and EBITDA, even though roaming service operations are still significantly below full capacity. yes continues to grow its subscriber base, with 33% of its customers already using IP services, and the continued positive trend in the company's free cash flow. In Bezeq International, we have fully returned to normal with stable revenues, an increase in free cash flow, and growth in the company's commercial service operations.

We continued to make progress to develop synergies between the companies. So far, we have appointed one unified management team to streamline operations, lowered operating expenses through joint procurement and reduced headcount by 1,400 employees in the last 2 and a half years. Going forward, we plan to transition to one new CRM system and achieve savings in future investments and costs of support.

Technologically, we continue to march forward onto next generation offerings in 5G mobile, Internet over Fiber Optics and IP broadcasting across the subsidiaries as we execute our structural and organizational transition.

As you can see on Slide 28 – We continued to lower salary expenses during the quarter. Since 2018, salary expenses decreased by 21%.

Turning to Slides 29 to 31 – At Pelephone, we are gradually deploying our 5G network. As of today, we have over 400,000 subscribers with 5G plans contributing to the increase in ARPU. Leveraging new and improved services, we continued to grow the number of postpaid subscribers for the fifth consecutive year. Adjusted EBITDA was up year-over-year and quarter-over-quarter. Revenues grew and reached the highest level since 2019. Increase in service revenues was primarily due to a partial recovery from the effects of COVID-19 resulting in an increase in roaming revenues although still not reaching the levels of 2019. Increase in equipment revenues was primarily due to the launch of the new iPhone model. On a half year basis, revenues, adjusted EBITDA, and adjusted net profit were up across the board.

Turning to Slides 32 to 35 - At yes, we continued our subscriber growth while customers continue to migrate to IP. We added 2,800 net subscribers since the beginning of the year alongside growth in IP subscribers with yes+ and STING TV reaching 33% of total subscribers. The success of IP migration continues to be shown through the increase in operating and free cash flow.

Turning to Slides 36 to 38 - During the quarter, Bezeq International continued to push its FIBER+ network and 1Gbs connection speed, while growing cloud solutions and

business and international data services. Revenues were down slightly year-over-year due to the decrease in revenues from Internet services partially offset by an increase in sales of business communication services and international calls. On a half year basis, revenues were down slightly, impacted by a decrease in ISP revenues partially offset by an increase in revenues from business services. Adjusted EBITDA was down year-over-year due to decrease in ISP profitability and one-time credit in the first half of 2020 related to the update in wholesale Internet tariffs.

I will now turn the call back to Tobi.

Tobi Fischbein (CFO, Bezeq Group): Thanks, Ran. Turning to Slide 39 – In summary, the Group's story includes its strong financial results, decrease in net debt, significant investments in advanced infrastructures and the recently approved structural change that is expected to bring growth potential alongside streamlining efforts.

Let me remind you that we will be holding a virtual analyst conference in Hebrew for the local market after this call.

This concludes our prepared remarks. Operator, let's begin the Q&A session.

Operator: Thank you. Ladies and gentlemen, at this time we will begin the question-and-answer session. If you have a question, please press star-one. If you wish to cancel your request, please press star-two. If you are using speaker equipment, kindly lift the handset before pressing the numbers. Your questions will be polled in the order they are received. Please stand by we poll for your questions. The first question is from Tavy Rosner of Barclay's. Please go ahead.

Tavy Rosner (Barclays): Hi, good afternoon. Thanks for taking my questions. Congrats on the solid results. And with that in mind, since you haven't updated your guidance for 2021, I'm wondering if you're expecting some kind of softness in the second half, or if you're being conservative.

Tobi Fischbein: Hi Tavy, and thank you. As you know, as a policy, we look into the future, and whenever we see a variation of plus or minus 10% from our guidance, then we come forward and update the guidance. We do see some positive variation, but it's not beyond the limit that I mentioned. So we are sticking with our original guidance.

Tavy Rosner (Barclays): Okay, thanks for that. And then, looking at the fiber and the rollout, in the presentation you mentioned an increase in operating expenses in Bezeq fixed, and it also impacted free cash flow coming from Bezeq fixed line. Do you have

a sense of the expected rollout, looking at 2021, 2022, if it's going to have a significant impact, or not really?

Dudu Mizrahi: Well, as you know, beyond 2021 we don't give specific guidance. Although we do definitely believe that the fiber deployment will generate, long term growth potential for the group, and especially for Bezeq fixed line.

Tavy Rosner (Barclays): Understood. And then the last one for me, please, looking at dividends. The last couple of quarters, you mentioned that you were examining the topic. I'm just wondering, where does that stand, and what are the key considerations?

Gil Sharon: Hi, this is Gil. We are definitely looking at our dividend policy. We will probably address it at the beginning of next year. Of course, we're looking at all aspects of cash flow optimization. So, there's increased CapEx for the fiber project, there's the decrease in our debt, that we're progressing very nicely, and there's dividends. We're considering all of that to reach the optimal decision, and we will most likely have something to say about it at the beginning of next year.

Tavy Rosner (Barclays): Understood. Thank you, I'll go back to the queue.

Operator: The next question is from Ondrej Cabejsek of UBS. Please go ahead.

Ondrej Cabejsek (UBS): Hi, thank you. Apologies for any noise in the background. I had two questions on trends if I may. One on the fiber. It seems like you've added significantly more subscribers in retail and the ARPU is strong. Could you break down a bit in terms of how much of that is actually coming from the new fiber connections, if anything. And then, in mobile, if you could clarify the comments you made on roaming? I didn't quite understand if roaming is coming back partly, or if there is still a headwind or a tailwind. And, you also mentioned 5G, having a positive impact on your ARPU levels. Could you also, again, kind of, break down the trend, especially in terms of ARPU, because you've turned that business around. And then, third question, if I may, related to the announcement after the results. You mentioned an additional, roughly, I believe, 55 million shekels of costs with respect to the new agreement with the unions. Can you just clarify, is that a new cost completely? Or is that a number that should be subtracted from any kind of efficiencies that you've planned for this, or that you may have already announced. And what would be – because this is clearly a new situation, what would be the positive impact from the merger announcement, if I may. Thank you.

Dudu Mizrahi: Tobi, let me take the question on fiber. Ondrej, we have not yet disclosed the number of subscribers on fiber. Bear in mind that we only started at the beginning of the quarter with the sales. But you could obviously see the growth in ARPU, and we also show the average bandwidth of our customers. So you could see

that we are seeing the impact of the launch of the fiber. Bear in mind that we are on a growing upward trend regardless of the fiber. So of course, the fiber contributed to the unusual growth. But still, even without the fiber, we are growing in ARPU.

Ran Guron: Okay. This is Ran, I'll take the next few questions. So, first of all, roaming. I want to describe in a few words the roaming trend. The first quarter of 2020 was a normal one, before COVID, and then COVID came in. Once COVID came in, roaming revenue was approximately 10 to 15% of a normal year, let's take 2019. So when we say roaming is back, that means that 2021, the optimistic way to look at it is, if it will be 50%, meaning half of 2019, of a normal year. So that's a lot better than 2020, since the second quarter. But it's only half of a normal year, which shows us the potential of roaming coming back fully, which is not expected this year, but maybe can come back in 2022 or 2023. So this is regarding the roaming issue. As for 5G, we announced that we have 400 thousand customers that are using 5G packages. 5G packages can be used by 4G customers as well, they have a lot more bandwidth, and can use the 5G network. So that has a positive contribution to our ARPU. We do not publish the number, but this number is impressive and increasing, and driving ARPU upwards. And as we can see it, we might be stating, we are not sure yet, that revenue from services, even excluding roaming, in 2021 will be more than 2020. So it supports the positive trend of revenues from services. And for the yes agreement with the union, with employees, well it has a cost, of course, but it allows us to continue streamlining. I will not go into the whole plan because we have to reach two more agreements, first of all with Bezeq International, regarding the split of the company, and then eventually with Pelephone as well. So I will not go into the full details, but of course, this extra cost will be covered by more efficiency, so the overall result will be a lot less. We expect considerable savings because of the merger and continued streamlining the same way that we have done since 2019.

Ondrej Cabejsek (UBS): All right, thank you. If I may, a couple of follow-ups on the roaming. Because there is talk again, about lock downs and Israel has had pretty strict travel restrictions. So can you, maybe, out of curiosity, where is the roaming – you said 50% of it is coming back. Where is it coming from, exactly, and where is it not coming from? And then, a bigger picture, on mobile. I think your previous plans were, pre-COVID, of course, for mobile to stabilize in 2021 and then start growing again in 2022. Are those plans still the way you would look at the market?

Ran Guron: So, first of all, about roaming. We had a good summer, which means June and July. August is not under lockdown, but there are some kind of restrictions, so I cannot forecast the full year. I can say it will be somewhere between 30% to 50% of a normal year. So that I can say. It's a lot better than 2020. Still, not the same figures as 2019. As for cellular, we do not predict prices and we do not predict the market

trend. But we can see cellular stabilizing, and with roaming coming back, we see an increase in revenues from services. So, we're kind of optimistic, but for the market, but we cannot forecast the market trend or prices.

Ondrej Cabejsek (UBS): All right. Thank you very much.

Operator: The next question is from Jerry Dellis of Jefferies. Please go ahead.

Jerry Dellis (Jefferies): Yes, good afternoon. Thank you for taking my questions. I have a couple of questions. First of all, on Pelephone. I'd be interested to understand the latest competitive situation in the mobile market, please, and particularly – what evidence there already is of, perhaps, 5G driven market repair. Secondly, if I look at the trend in the reported Pelephone ARPU, the Pelephone ARPU in Q2 this year is about 10 shekels down on Q2 two years ago, so, without any COVID impact. And that's a very similar trend to what we saw in Q1. So, you could say from that, that really, the rebound in Pelephone service revenue growth this quarter is entirely due to the lockdown comp, rather than any, sort of, underlying market repair, or 5G benefit. And I just wondered what you would push back on that, please. And then, finally, within the parent company, you still have 520 thousand wholesale internet customers, and that seems to be declining at a fairly steady rate. But I wondered what visibility you have internally on that, or visibility we have as external observers, about the pace at which the wholesale base will decline. Thank you.

Ran Guron: Okay. So, I'm not sure what I haven't covered regarding roaming, but we do see roaming coming back. We are not sure of the pace. And it's part of an overall worldwide trend. So I'm not sure what I can add to that. So if you have a specific question regarding roaming, you can ask once again, because maybe I didn't get the point that you are making.

Jerry Dellis (Jefferies): Okay. If I look at the mobile ARPU, 54 shekels in Q2 '21 – it was 64 shekels in Q2 of '19. So over a two-year period –

Ran Guron: Including – sorry for interrupting. Including roaming, of course.

Jerry Dellis (Jefferies): Yes, exactly.

Ran Guron: So – what you can see here is two trends. Loss of roaming revenue, of course, affected ARPU, and the overall market trend of erosion in ARPU, is affected as well. What we say right now, that what we can see, that ARPU without roaming is stabilizing, we can even see a minor increase, and roaming is very much dependent on COVID and restrictions. So there are two trends. Some of the roaming is coming back, not all of it, and the basic ARPU is stabilizing, maybe some kind of trend going

upwards. So, does it make it clear?

Jerry Dellis (Jefferies): If ARPU is recovering in Q2 '21, better in Q2 than in Q1, then we would expect to see that in the reported numbers. And what we see is a steady two-year trend. So, what I'm trying to ascertain is, exactly, sort of, where this evidence of market repair comes from. A 10 shekel decline in ARPU on a two-year basis, consistent across two quarters, in a situation in which roaming came back in the most recent quarter, would suggest a small underlying deterioration. But that doesn't sound like that's what you're seeing, so that's what I'm trying to understand.

Ran Guron: Okay, so, if I may suggest, you can take it offline with the team here, because I think you are kind of confusing the figures here, so I suggest we take it offline and make it more clear.

Dudu Mizrahi: Hi, I will try to answer the wholesale question. What we've seen over, I would say, the last two to three years, is the decline in wholesale customers, basically driven by two factors. One is the fact that Bezeq started to grow retail customers, so we're adding customers to our retail subscriber base coming from wholesale operators. And the second trend was the fact that Cellcom and Partner, which are the biggest wholesalers on our network, were moving customers from using Bezeq infrastructure on a wholesale basis, to their own fiber optic network, which they have been rolling out over the last few years. Moving forward, I would say that we expect this trend to change, because of the fact that we're going to see these players – currently only Cellcom is doing that, Cellcom and Bezeq International – but I believe that in the future we might also see Partner using our fiber network on a wholesale basis. I think we will see a trend of sales to customers over our fiber network, which will change the current negative trend on the wholesale. It will partially, or even fully, offset the decline in copper customers on wholesale. So, basically, these are the trends.

Jerry Dellis (Jefferies): That's very clear. Thank you.

Operator: The next question is a follow up from Ondrej Cabejsek of UBS. Please go ahead.

Ondrej Cabejsek (UBS): Yes, thank you. Two follow up from me, please. One on the voice trends. Clearly, I guess, same situation with corporate traffic last year. You had a big stabilization in terms of fixed voice revenues. Now that that is no longer the case, and as we said on impact, the drop was pretty steep, and I think that the trend was one of the highest, negatively, that is, in a couple of years. Can you clarify why that is? If there was some special cut from last year - Q2 '20 for example being a very positive base, and how the rate should or should not normalize going forward? And then, an update, if you don't mind, on any progression with regards to the fixed voice rate cuts

in the conversations that you're having. And a second follow up, if I may. Are you already seeing some kind of pickup on wholesale when it comes to the fiber rollout? Are you already getting, requests from some of the competitors to provide wholesale on fiber? And if not, when would you expect that?

Dudu Mizrahi: Well, for the telephony question, I think you've answered the question yourself. Basically, Q2 last year was the peak, we saw peak usage on telephony due to COVID. And of course in the second quarter this year, we are now witnessing the dramatic change in usage. So the 30 million shekels decline, is more aggressive than the rate of decline we used to see. Moving forward, depending on how COVID will develop, if we exclude the COVID effect, we still expect to see a decline in telephony revenues. I think, more or less, the same trend as we saw before 2020 that showed a decline of roughly 80 to 100 million shekels per year. Moving forward, I think we'll see, more or less, the same trend. Regarding the wholesale tariff cut, we are now concluding a very expensive and long hearing process with the Ministry of Communications and Ministry of Finance. I think we made our best effort to convince them that based on the current market trend and the eroding trend of telephony revenues in the overall market, the tariff cut is not relevant and not necessary. We made our best effort to show that and to convince them. We are still talking with them. We think that over the next few months there will be a decision. Hopefully we'll manage to convince them and the decline will be much smaller than the initial position they announced.

Operator: If there are any additional questions, please press star-one. If you wish to cancel your request, please press star-two. Please stand by while we poll for more questions. There is another question from **Ondrej Cabejsek**. Please go ahead.

Ondrej Cabejsek (UBS): Sorry, I had a second question on the wholesale – on fiber, was my second question–

Dudu Mizrahi: Yeah, sorry.

Ondrej Cabejsek (UBS): If I may.

Dudu Mizrahi: Yeah, I haven't answered that. Well, currently, we are seeing two players wholesaling our fiber network, Cellcom and Bezeq International. Partner, which is wholesaling our copper network, is still not operating as a wholesaler on fiber. I believe that over time, we will also see Partner starting to operate on our fiber network. But currently, they are not doing so.

Ondrej Cabejsek (UBS): Thank you. Is there any change in terms that you are already seeing when it comes to the build out or the rollout of fiber from your competitors, now

that you've launched quite extensively?

Dudu Mizrahi: We are looking at the publicly available numbers that they are showing, and there is very little that I can tell you. But you can enter by yourself to the IBC site and see the rollout numbers they are presenting. I think we are seeing a much slower deployment over the last few months and we don't really know the exact reason. We are doing our best to deploy as fast as we can. We've set a very, very aggressive target, of one million households, and we intend to meet that, and continue over the next year with very aggressive targets. I think that a big part of the country will be deployed by Bezeq fiber only. So sooner or later, I think, all of the operators will operate as wholesalers on Bezeq's network.

Ondrej Cabejsek (UBS): Thank you very much.

Operator: If there are any additional questions, please press star-one. If you wish to cancel your request, please press star-two. Please stand by while we poll for more questions. There are no further questions at this time. I would like to remind participants that a replay is scheduled to begin in the period of three hours on the company's website at www.bezeq.co.il. Mr. Fischbein, would you like to make your concluding statement?

Tobi Fischbein: I would like to thank you all for taking the time to join us today. Should you have any follow up questions please feel free to contact our investor relations department. Management looks forward to speaking to you on the third quarter 2021 earnings call. Thank you.

Operator: Thank you. This concludes Bezeq's second quarter 2021 results conference call. Thank you for your participation. You may go ahead and disconnect.

[END OF TRANSCRIPT]

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