

# "Bezeq" The Israel Telecommunication Corp., Ltd.



## Event Transcript

### Q2 2020 Financial Results

Monday, August 17th, 2020, 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](http://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 2020 Financial Results**

**Operator:** Ladies and gentlemen, thank you for standing by. Welcome to Bezeq's second quarter 2020 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 Incoming Chairman, Mr. David Granot, Bezeq's Interim Chairman, Mr. Dudu Mizrahi, Bezeq Fixed-Line's CEO, Mr. Ran Guron, CEO of Pelephone, Bezeq International and yes, and Mr. Yali Rothenberg, Bezeq Group's Chief Financial Officer.

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 Incoming Chairman, Mr. Gil Sharon and Interim Chairman David Granot for prepared remarks. Yali 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, and Yali will wrap up the presentation, after which management will be available to answer questions.

**Gil Sharon (Incoming Chairman, Bezeq Group):**

Thanks, Naftali. Let me start by introducing myself. My name is Gil Sharon, and I am happy and excited to join the Bezeq group soon. I am 56 years old and I have over 25 years of experience in telecoms, of which 10 were as CEO of Pelephone. Bezeq is the largest and most significant telecommunications group in Israel, and we stand at the dawn of a new era to lead Israel to the next generation networks, with the upcoming launch of the ultra-fast telecommunications networks – the fiber optic network and the 5G cellular network. These are exciting opportunities for the group. After having been a part of the group for some 14 years, it gives me great honor to be back at Bezeq at this exciting time and lead us forward. Now I'll turn the call over

to David to begin with prepared remarks on the Covid-19 pandemic situation and its impact on Bezeq's business.

**David Granot (Interim Chairman, Bezeq Group):**

Thanks, Gil. It gives us great pleasure to welcome you back to the Bezeq Group and we wish you all the success.

Let's start on Slide 3 - Since the outbreak of COVID-19, the Group's companies have been working hard to maintain operational continuity to provide services to our business and private customers and enable them to carry on with what they need to do, while complying with government guidelines. In addition, the Group companies have taken steps to deal with the risks arising from the pandemic, including lowering expenses and adjusting their operations according to the situation. Overall, as of the end of the second quarter of 2020, the total impact of the pandemic on the financial condition of the Group companies was immaterial.

Let me remind you that Bezeq and telecommunications companies as a whole belong to the infrastructure sector, which is deemed as an essential sector by the government, and that the public and private sectors continue to rely on the companies' services in such events. Demand for some of the services provided by the Company has even grown as a result of the regulatory measures imposed due to the pandemic. In terms of opportunities, as more people spend more time indoors, we are seeing an increase in retail Internet lines and traffic, increase in fixed line telephony usage as well as growing demand for content services. In the business sector, we are seeing growth in demand for remote connection and virtual conference. While we proactively capture these market opportunities, we also continued to push forward with streamlining initiatives to cut costs.

In terms of challenges from the pandemic on Slide 4 - there was primarily a decrease in revenues from Pelephone's roaming services due to reduced air travel, as well as some decrease in revenues from the business sector across the Group companies. Real estate sales may be postponed based on market conditions. And while we anticipate a possible rise in doubtful debts, we estimate that the Company's robust balance sheet, cash-generating capacity, and ready access to the capital markets will enable us to adequately deal with any potential negative effects.

Now I'll turn the call to Yali to talk about our financial results.

**Yali Rothenberg (CFO, Bezeq Group):**

Thanks David. Turning to Slide 6 – The Group's strong financial results in the second quarter validate the strength of the Group operations, the diversification of sources of

revenue and the ability to streamline expenses. During the quarter, group-wide revenues totaled 2.16 billion shekels, down 3.1% from the prior year quarter. The decrease in revenues was due to lower revenues in the key subsidiary companies, partially offset by an increase in revenues in Bezeq Fixed-Line.

On Slide 7 – Group-wide gross salary expenses decreased from 489 million shekels a year ago to 444 million shekels in the second quarter of 2020, a decrease of 9.2%. The decrease was due to the reduction in the number of employees and associated salary expenses in all key group business segments.

Meanwhile, group-wide operating expenses decreased from 814 million shekels a year ago to 753 million shekels in the first quarter of 2020, a decrease of 7.5%. The decrease in operating expenses was due to a reduction in expenses in Bezeq International and yes.

Salary and operating expenses were also impacted by the effect of the pandemic in the second quarter of 2020.

Turning to Slide 8 – Adjusted EBITDA in the second quarter of 2020 was 958 million shekels compared to 921 million shekels in the same quarter of 2019, an increase of 4.0%. The increase was mainly attributable to an increase in Bezeq Fixed-Line and yes. Group-wide adjusted net profit increased 13.5% to 253 million shekels in the first quarter from 223 million shekels a year ago.

Moving to Slide 9 – Free cash flow in the second quarter was 144 million shekels, compared to 350 million shekels in the same quarter of 2019. The decrease in free cash flow was mainly due to net proceeds received of NIS 174 million relating to the sale of the "Sakia" complex in the corresponding quarter of 2019. After adjusting for impact from "Sakia", free cash flow was down 18.2% year over year due to changes in working capital.

Gross capex in the second quarter amounted to 351 million shekels, compared to 525 million shekels in the same quarter a year ago. The decrease was mainly due to the sale of the "Sakia" complex. After adjusting for the impact from "Sakia", gross capex was down 6.6% mainly due to yes's migration to IP broadcasting.

On Slide 10 – We have broken down subscribers and ARPU by different business segments. Let me point out that subscribers in cellular, retail broadband and TV segments moved up during the quarter, and telephony ARPU grew to 51 shekels, compared to 49 shekels in the second quarter of 2019.

Lastly 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 year-on-year decrease of 900 million shekels in net debt, as well as the decrease in net debt to EBITDA leverage ratio, from 2.5 in Q2 2019 to 2.3 in Q2 2020. In addition, we continued to prepay debt this quarter with the early repayment of a 500 million shekel loan and a capital raise of 724 million shekels in long-term debt.

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

**Dudu Mizrahi (CEO, Bezeq Fixed-Line):**

Thanks Yali. I'm pleased to share that we posted strong financial results in the second quarter, and for the first time in two years, recorded an increase in revenues. The increase in revenues was attributable to growth in the private and business broadband sector as well as cloud and digital services. At the same time, for the first time in five years, we recorded an increase in the number of retail broadband subscribers, as you can see on Slide 13. In addition, we also grew total broadband lines while continuing to accelerate the sales of related equipment.

On the next Slide – In terms of progress in regulatory issues, we have positive news to share. The Ministry of Communications approved the use of B35 technology, which enables broadband speeds of up to 200 Mbps. We also received a permanent automatic extension of the "reverse bundle" offering. Most importantly, on fiber deployment, there has been significant progress in the regulatory efforts to approve Bezeq's fiber optic outline, and it will soon be submitted to the Government for approval. Our entry into the field of fiber optics will have far-reaching effects on Bezeq and the entire Israeli economy, and it will enable millions of customers throughout Israel to enjoy ultra-fast broadband and make the State of Israel a world leader in telecommunications infrastructure.

Turning to Slide 15 – We continue to focus on the customer premises through a three-part strategy which consists of our BE router as the base; home products that ensure broadband quality such as Bspot and Mesh; and value-added services such as cyber protection, anti-virus and network support.

The number of customers with the BE router increased from 215,000 in the second quarter of 2019 to 433,000 in the second quarter of 2020. About 44% of our retail customers choose to connect with the BE router. Meanwhile, the number of customers with Bspot/Mesh increased by 129% over the same period.

Turning to the next Slide – We recently launched our new smart home service, which enables a wide variety of capabilities based on Bezeq's BE router and strengthens our

customer premises strategy. The system comes with five components, which together brings an elevated smart living experience to our customers.

Moving on to Slide 17 – our retail ARPU continued to grow as a result of increased penetration in customer premises services as well as valued-added services. This is the only telecommunication product in Israel that has consistently shown ARPU growth.

On Slide 18 – our telephone offering saw significant increase in traffic during the quarter, with outgoing minutes up 25% year over year and incoming minutes up 22% year over year. As a result, telephony revenues increased 10 million shekels compared to the previous quarter, and access line churn slowed down.

Turning to the next Slide – In addition to telephony, we saw revenue growth in the transmission & data, cloud & digital services and other segments. Revenues for the transmission & data segment was up 5.5% year over year due to an increase in high speed internet services for business customers as well as transmission services for ISPs. Revenues for the cloud & digital segment was up 2.9% year over year due to increase in virtual exchanges and cloud services for businesses. Revenues for the Other segment was up 16.6% year over year due to an increase in sales of cellular equipment.

Moving to Slide 20 - In addition to retail, we are leading the business sector through advanced telecommunication solutions supported by high-quality infrastructure. As COVID-19 persists, the ability for businesses to operate remotely and continue to provide service remains critical. Toward that end, we stepped up our offering of video conferencing and remote access solutions to businesses in addition to virtual exchange and other IT solutions.

Moving to Slide 21 – Revenues in the second quarter were 1.04 billion shekels, compared to 1.02 billion shekels in the prior year quarter. The increase in revenues was due to an increase in most revenue items which was partially offset by a moderate decrease in revenues from telephony services. Meanwhile, expenses were up slightly from last year, mainly due to an increase in operating expenses, which was impacted by an increase in interconnect fees to cellular operators.

Turning to Slide 22 – Adjusted EBITDA in the second quarter was 680 million shekels compared to 656 million shekels in the same quarter of 2019. Meanwhile, adjusted net profit decreased 3.8% year over year to 227 million shekels, mainly due to an increase in financing expenses resulting from the early repayment of debt. After adjusting for the early repayment, adjusted net profit rose 12.7%.

Now I'll turn the call to Ran to talk about Bezeq's subsidiaries.

**Ran Guron (CEO, Pelephone, Bezeq International, yes):**

Thanks, Dudu. This quarter we can see that the subsidiary companies are profitable, generate positive cash flow and are steadily increasing the number of subscribers. The companies have proven their strength and stability during COVID-19, with fast and accurate operations as well as proper management of expenditures.

At the same time, the companies continue to work to ensure the best service and network experience for their customers. We will be the first to launch 5G services in Israel. We are progressing with the transition to IP broadcasting in yes, and Bezeq International continues to lead in business services and develop real-time solutions for private and business customers.

Clearly the subsidiary companies are showing significant results. Moving to Slide 24 - I'd like to remind everyone that all of this started in early 2019 when we took on the challenge and merged not two, but three companies - Pelephone, Bezeq International and yes to realize synergies and operational efficiencies. We are currently going through Phase A, which runs from 2019 to 2021 with Phase B starting in 2022.

Going forward, our goals in Slide 25 are to promote customer solutions, lower expenses, improve financial and operating metrics, streamline operations, enhance customer benefit and create synergies.

Moving to Slide 26 - The key organizational processes that we have already begun in order to achieve those goals include appointing one unified management team to streamline the decision-making process, implementing joint procurement to save operating expenses and continuing to sign synergy and streamline agreements with the three companies to reduce headcounts. Some additional areas we are targeting for future savings are in Slide 27 – and include savings in real estate expenses by moving corporate headquarters, savings in transition from purchase of expensive set-top boxes to cheaper streamers, and savings in investments and costs of support through switching to one CRM system.

At the end of the day, we are undertaking all these initiatives to benefit our customers so that they can have a wide range of triple play and quad offers, centralized billing service, original content and so on. Toward this end, in Slide 28 - I'm pleased to share that all three subsidiary companies are marching on to offer the next generation of technologies in each of the three business units. 5G in mobile, IP in yes and Bezeq International's use of Bezeq's fiber optics.

Moving to Slide 29 - For yes, our IP migration is bringing enhanced customer experience as well as cost savings. Customers have access to the most robust content library in Israel from both Android and Apple TV. We recently launched yes+LIVE, a groundbreaking technology for watching broadcasts truly live and without any delay. So far, 15% of our customers have at least one IP streamer and we are saving money in doing so as we replace expensive set-top boxes for cheaper streamers.

Moving to Slide 30 - The success of IP migration is manifesting itself through increase in subscribers and improved financial metrics. yes reported net profit in the first half of the year and grew free cash flow year over year while increasing the number of subscribers for the second consecutive quarter.

Moving to Slide 31 - For Pelephone, we continued to grow our subscriber base during the quarter and during the first half of the year. In Slide 32 - Upon winning the government's 5G tender auction, we are excited to launch 5G services with record speed, and wide coverage across a diverse selection of handsets and plans. I would like to emphasize that Pelephone is the only company that won frequencies for its exclusive use, which will give a competitive advantage to the Pelephone network.

Moving to Slides 33 and 34 - For Bezeq International, we are bringing innovative solutions for home and business with the launch of a new router (WiFi plus), Mesh support system and remote connection. We've been a leader in business solutions and the pandemic led to further increases in corporate demand for larger bandwidth based on our Internet infrastructure.

Turning to Slides 35 through 37, let's briefly look at some key financial metrics for the subsidiary companies. We continued to lower salary expenses during the quarter. Since the first quarter of 2018, salary expenses decreased by 26%. Revenues went down slightly year over year due to a decrease in roaming revenues as a result of the pandemic. Expenses declined across the board due to streamlining initiatives. Adjusted EBITA and adjusted net profit decreased year over year due to the pandemic's impact on roaming revenues, which was partially offset by measures to adjust expenses as well as increased demand for other products of the companies.

I will now turn the call back to Yali who will update you on the Group's 2020 outlook.

**Yali Rothenberg (CFO, Bezeq Group):**

Thanks Ran. Previously, we suspended providing guidance due to the outbreak of COVID-19 and the resulting uncertainty in the global and local economy. Although the uncertainty in the economy remains high, we've decided to publish our outlook for 2020 based on current information and after a review of the Group's performance during the pandemic.

We expect adjusted net profit to be 950 million shekels, adjusted EBITDA to be 3.5 billion shekels and CAPEX to be 1.5 billion shekels.

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

In addition, we will be hosting virtual investor meetings this week on August 19<sup>th</sup> and 20<sup>th</sup> with Jefferies and we will be participating in virtual investor meetings through the Barclay's Media and Telecom Forum on September 3<sup>rd</sup>.

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. *[pause]* The first question is from Tavy Rosner of Barclay's. Please go ahead.

**Chris Reimer (Barclays):** Hi, This is Chris Reimer on for Tavy. Thank you for taking my questions. Could you give us some more color on what Phase 2 the cost cutting includes? And specifically where it relates to employee agreements and early retirements? I think the last agreements were in the scope of 325 for each international and yes, and then 400 at Pelephone. If you could tell us how many more could potentially leave beyond that. And if any new contracts for the following years would be in the same scope, or would they be smaller?

**Ran Guron (CEO, Pelephone, Bezeq International, yes):** Okay. So, first phase of the Alpha plan is supported by agreements with the unions until the end of 2021. We've streamlined one thousand employees so far, and there are hundreds more to go, supported in the current agreements. We will negotiate new agreements during the year 2021 for the years 2022 and so forth. The numbers of course, will not be the same. We will not give any numbers right now. But we are now in the middle of the process of preparing the next phase for Alpha.

**Chris Reimer (Barclays):** Okay. And then, on the fiber side, you mentioned the significant regulatory progress which was achieved during the quarter. Looking forward, what are the last regulatory issues that need to be solved before you can turn on the network?

**Dudu Mizrahi (CEO, Bezeq Fixed-Line):** Hi, this is Dudu. I think there are two main issues still pending. One is of course the government decision regarding universal service obligations. The second is the wholesale regime for the fiber. And I think, or at

least we expect, those two issues to be resolved during the very near future.

**Chris Reimer (Barclays):** Okay, thank you. And one last question for Yali, if I may. Regarding the guidance, you delivered already close to 1.9 billion shekels in just the EBITDA for the first six months. So, looking at the 3.5 billion shekel guidance, I'm wondering if you're being conservative, or if you're expecting a slowdown, maybe, in the second half?

**Yali Rothenberg (CFO, Bezeq Group):** Well, Chris, as mentioned, we've decided to give the outlook given the current market uncertainty. Some of the trends might end up better or worse than we expected, telephony for example, while during the first half of the year, we've also enjoyed cost cutting, specifically, for example, city taxes, fuel costs, salaries, and other expenses. Some of these expenses will be saved also in the second half. Nonetheless, we'll be happy to over-perform and do better than our guidance.

**Chris Reimer (Barclays):** Got it. Okay. Thank you very much. That's it for me.

**Operator:** The next question is from Stephen Levey of Ion. Please go ahead.

**Stephen Levey (ION):** Hi, guys. Just two questions for me. Just a follow-up on the regulatory stuff. Just some clarification. If we don't get a budget passed over the next few weeks, if the government doesn't – doesn't survive what's been going on. Will you guys be waiting for the next government, and for a budget to be passed in 2021 before you start the fiber rollout? Or is there any plan to actually begin that, even without the budget passing?

**Dudu Mizrahi (CEO, Bezeq Fixed-Line):** Hi, Stephen. Currently, we are waiting for the government decision, as I mentioned. But we are looking at other possibilities if and when such a decision will not be made. So, there are different options. I'm not going to get into them right now, but there are options. If the government collapses, there will be an interim government. And this interim government also can pick up the decision regarding the fiber. So it is not the end of the world, and we believe that we will get this governmental decision.

**Stephen Levey (ION):** It does sound, though, from a nuance perspective, that there's a slight change in approach here. Because previously, I think, it had been made quite clear from management that there would be no rollout without the final government approval. But what you're saying, if I understand correctly, is that you are open to other possibilities, should the approval not come in the very short term. Is that – is that fair?

**Dudu Mizrahi (CEO, Bezeq Fixed-Line):** I think, Stephen, we still think that the option of getting the government decision is, of course, our primary goal. But since you've asked, we are looking at other options, whether that small possibility will happen and there will be no government decision, I think there's still the option that we can move forward even without the government decision. But we think now that what the Ministries of Communications and Finance are trying to do is to get this government decision. It's purely a technical issue right now. So we believe we'll get that decision very soon.

**Stephen Levey (ION):** Okay. Second question, there's a few mentions of 5G across the presentation that you just went through. The one thing that I didn't really notice was any kind of a clear feeling in terms of timing. Do you want to give us a sense when you're going to have an operational 5G network up and running?

**Ran Guron (CEO, Pelephone, Bezeq International, yes):** Yeah, this is Ran. 5G network is operating. We need the MoC to allocate the frequency, which should be done in a few short weeks. But the core network partially, radio system, handsets, and plans, are in order. So from our point of view, the network is fully operational. Of course, full deployment will take a few years, because it's not done in one single year. But we are waiting to get the frequencies that we have won in the auction.

**Stephen Levey (ION):** No, I understand that. I was – from my understanding, looking how these things roll out globally, the amount of work that needs to go in, your base stations that needed to be added. What I'm asking is, when will you have a fully operational national 5G network running in Israel? Is it a 2021 event? 2022, 2023? Just give me a rough idea of when there'll be a fully operational network.

**Ran Guron (CEO, Pelephone, Bezeq International, yes):** Sure. Well, we will not give accurate information about that. But, typically, to cover this country takes 4 to 5 years. In any kind of technology. 4G, 5G, cover each one of all the base stations. So, this can give you a general time frame for that.

**Stephen Levey (ION):** So we shouldn't really be factoring anything in terms of 5G, in terms of any potential increase in revenues at any point over the next 3 years. Significantly, anyway.

**Ran Guron (CEO, Pelephone, Bezeq International, yes):** Well, we believe that customers will use more data. So as you take more data, it usually costs more. But all the basic plans will support 5G as well.

**Stephen Levey (ION):** Okay. Thank you.

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

**Ondrej Cabejsek (UBS):** Hi, thank you. I wanted to clarify, you highlight in your presentation that one of the impacts of the current situation is you may be booking higher bad debts provisions. Has that already happened, or is this a potential future event? And related to that, could you give us an outlook for working capital for the rest of the year? Because I notice your net debt actually went up quarter over quarter. Is this is because of some working capital event? Could you clarify what the outlook is there? Thank you.

**Yali Rothenberg (CFO, Bezeq Group):** Ondrej, I just want to make sure you are referring to the changes in working capital?

**Ondrej Cabejsek (UBS):** Yeah.

**Yali Rothenberg (CFO, Bezeq Group):** Or the changes in free cash flow? I'm not sure I was following you – your question, all the way.

**Ondrej Cabejsek (UBS):** Yeah. so the first part of the question is, whether because you're highlighting bad debt provisions and the potential negative impact from the current situation, I wanted to understand whether you've already booked some, or whether this is more a potential second half of year event, that's one question. And then, the second question relates to the outlook for working capital in the second half of the year. Because presumably you had a pretty negative number in the second quarter. Thank you.

**Yali Rothenberg (CFO, Bezeq Group):** So, I'll start with the second question, because I'm still trying to understand the first one. The main changes in the working capital – first of all, there's Sakia– that's a major change in free cash flow quarter versus quarter. And then, as for the working capital, we've had some one-time expenses, for example, we had expenses for payments to wholesale providers, which we provisioned already accounting-wise by the end of 2019, but the cash flow just came out of this quarter. That's one example. And that's a one-time expense. And also for the payments for early retirement this quarter versus the corresponding quarter were a bit higher. So those are the two main, big changes in working capital. And I didn't really quite follow you on the first question.

**Ondrej Cabejsek (UBS):** Well, so on slide 4, you are saying that one of the challenges that you – the potential rise in doubtful debts, and collection issues. And some operators have already booked, you know, higher bad debt provisions in the second

quarter. So the question really was, has that happened, like, in the second quarter? And if not, the likelihood that that happens the remainder of the year as well.

**Yali Rothenberg (CFO, Bezeq Group):** So we did provision for higher doubtful debts as a precaution. But so far, as far as the actual debt collection goes, we haven't seen any worsening in collections. And this is something that we will be looking at in the future, also possibly in 2021. But just to sum up, we really haven't seen, besides the provision that we've recorded in the financial statements for doubtful debts, any substantial worsening in debt collection.

**Ondrej Cabejsek (UBS):** Okay. Thank you. And one, maybe, follow-up on the 5G question previously. Can you clarify whether the amount that you paid, or are expected to pay, for the spectrum, was part of your, or is part of your guidance for this year? CapEx guidance? That, if I'm not mistaken, it was part of the 2019 guidance?

**Yali Rothenberg (CFO, Bezeq Group):** None of it will be paid this year at all. The whole transaction with the MoC will be paid out in 2022, and there's a rebate too which depends on how much sites you deploy. So, it's not in the current year outlook at all. Because it's not going to be paid this year. And the net payment will be possibly lower.

**Ondrej Cabejsek (UBS):** Okay. Understood. And final question, please, on 5G. Do you expect that because of some of the network share agreements that your competitors have, that the deployment of 5G is likely to end in more consolidation than we're seeing currently? Is that management view, basically, is what I'm asking?

**Ran Guron (CEO, Pelephone, Bezeq International, yes):** Well, – this is Ran. I'm not sure I get the question. There are two shared networks. One is owned both by Cellcom and XPhone, the other one by Partner and HOT. So we took the auction exclusively, we're going to use the tenders for our network. Could you repeat the question, please.

**Ondrej Cabejsek (UBS):** So, I think, my question is more like– I believe that the agreement between Cellcom and XPhone is that – or Golan, probably as well – is that they basically split the CapEx going into the network, either two ways or three ways. It used to be three ways, now it's two ways, because of the Golan acquisition. So do you think that's – that potentially we could see another merger in the market? Is that your view?

**Ran Guron (CEO, Pelephone, Bezeq International, yes):** I cannot say. I don't know.

**Ondrej Cabejsek (UBS):** Okay. Thank you.

**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. *[pause]* There are no further questions at this time. I would like to remind participants that a replay is scheduled to begin in a period of 3 hours, on the company's website, at <https://ir.bezeq.co.il/>. Mr. Rothenberg, would you like to make your concluding statement?

**Yali Rothenberg (CFO, Bezeq Group):** 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 2020 Earnings call. Thank you.

**Operator:** Thank you. This concludes Bezeq's Second Quarter 2020 Results conference call. Thank you for your participation. You may go ahead and disconnect. *[End of conference call.]*

[END OF TRANSCRIPT]

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