

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



## **Event Transcript**

### **Q3 2021 Financial Results**

Tuesday, November 30th, 2021, 17:00 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.

### **Q3 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 the Bezeq Group's senior management team we have: Mr. Gil Sharon, Bezeq's Chairman, Mr. Dudu Mizrahi, Bezeq's CEO and Mr. Tobi Fischbein, Bezeq'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. Tobi will pick up with results of our subsidiaries, after which management will present the Group's business strategy.

**Gil Sharon (Chairman):**

Thank you, Naftali. Let's start now on Slide 3 to address the key highlights reached during our third quarter earnings:

- Revenues in the quarter totaled 2.1 billion shekels
- Adjusted EBITDA rose 2.6% to 938 million shekels with and Adjusted EBITDA margin of 43.8%
- Adjusted net profit grew 1.7% to 295 million shekels
- Free cash flow also increased 32.3% to 377 million shekels
- Net debt decreased by 1.03 billion shekels as we improve our coverage ratios

Also relevant to the quarter was Bezeq Fixed-Line's massive fiber deployment, which enabled us to reach 1 million homes well ahead of our annual target. In terms of the operating metrics, we increased the number of retail broadband internet subscribers for a sixth consecutive quarter while ARPU rose 7.0%.

Pelephone posted strong financial results with service revenues increasing 5.3% and EBITDA 38.3%. 5G subscribers grew and reached 500,000 as of today. yes, recorded a 16% free cash flow increase with a stable number of subscribers while IP subscribers rose to 38%.

And finally, as mentioned before, as part of our strategic plan, the merger of Bezeq International into yes has been approved, and we look forward to building the new engine for growth.

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.

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

**Tobi Fischbein (Chief Financial Officer):** Thank you, Gil. Turning to Slide 4 – We continue to push forward our strategy while delivering results. We posted strong Group results for the third quarter and first nine months of the year due to Bezeq's offering of end-to-end telecom products, our ability as a group to generate strong results even in challenging times, and our continued investment in infrastructure, products, services, and customer service.

Revenues in the third quarter amounted to 2.14 billion shekels, a decline of 1.7% year-over-year. Our operating expenses of 742 million shekels declined 6.1% mainly due to lower equipment expenses and interconnect payments to telecom operators. Salary expenses were also down 1.3% as headcount at subsidiaries declined as part of their efficiency programs.

On slide 5 we show an Adjusted EBITDA of 938 million shekels, up 2.6% year-over-year, with an Adjusted EBITDA margin of 43.8%. Our Adjusted net profit increased 1.7% year-over-year to 295 million shekels. CAPEX in the third quarter totaled 445 million shekels compared to 442 million shekels in 2020. The increase was due to an increase in investments in Bezeq Fixed-Line due to the launch of the fiber deployment project. Free cash flow in the third quarter totaled 377 million shekels compared to 285 million shekels in 2020, an increase of 32.3%. The increase in free cash flow was due to primarily due to changes in working capital.

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

**Dudu Mizrahi (Bezeq Fixed Line CEO):** Thanks Tobi. Turning to Slides 11 and 12- We finished another strong quarter with stable overall revenues despite the 13.4% decrease in telephony revenues. Broadband internet services grew with retail subscribers recording growth for the sixth consecutive quarter. Retail ARPU reached 107 shekels due to fiber deployment and robust sales of equipment. In the business segment, we continue to post significant gains, with an 8% increase year-over-year in revenues from transmission and data, and 12.7% year-over-year growth in revenues from cloud and digital services.

During the quarter, we continued full-speed ahead with our fiber-optic roll-out project. Bezeq's fiber network has already reached 1 million homes passed, an unprecedented roll-out pace in the world, allowing us to reach earlier our 2021 target.

The average broadband speed at Bezeq exceeded the 100-megabytes threshold for the first time, growing within a year by no less than 46%. The results of operations in the business sector are breaking records, relying on an uncompromising level of service and Bezeq's technological power. In the coming year, we will continue to deploy fiber at a rapid pace, with the emphasis now shifting outside city centers, rural localities, the periphery and private homes.

On Slide 13 – As we continue to upgrade Internet speed, key metrics of our broadband services are showing results. Revenues from broadband services of 407 million shekels were stable year-over-year despite the decrease in wholesale tariffs. The number of retail broadband lines grew for the sixth 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.

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

**Tobi Fischbein (Chief Financial Officer):** Turning to Slide 23 - We had a strong quarter. Pelephone and yes posted subscriber growth and profitability metrics improved while free cash flow grew in all three subsidiaries. 38% of yes customers are watching TV through IP broadcasting. We saw subscriber growth at Pelephone with the accelerated deployment of the 5G network.

On Slide 28 we see the performance across financial metrics – Pelephone revenues were down 0.7% mainly due to the decline in equipment revenues due to the global

chip shortage and COVID effect. Subscriber growth rose for the fifth consecutive year. Adjusted EBITDA rose 39.2% to 167 million shekels.

Moving to Slide 31 - yes' key operational and financial metrics. Revenues for the third quarter grew 1.6% to 318 million shekels, Adjusted EBITDA rose 11.5% to 68 million shekels. ARPU in the third quarter grew by 2 shekels to 188 shekels.

In summary, the Bezeq Group reported strong financial results for the period, increasing revenues and net profit. We made significant investments in advanced infrastructure to support the group's growth and leadership in the telecommunications industry in Israel. The Group's financial strength led to an improvement of the debt profile, allowing for further net debt reduction. We aim to maintain significant liquidity. We have the ability to increase investments that will benefit the Group's ability to meet its growth potential. We are excited about the future ahead and the implementation of our medium-term plan. We look forward to continue delivering additional shareholders' value.

Now let me turn the call back to Gil to go through our business strategy presentation.

**Gil Sharon (Chairman):** Hi, everyone. I'd like to say a few words about the importance of strategy. I think it is two-fold. One is to align and focus the board, management, and employees, around a coherent plan with a set of goals and priorities. And two, to send a clear and transparent message to investors about the company's plans. So let us go together through the presentation. Let's start on slide number 3. We call this presentation from defense to growth because we think that in the last four years, the group, for several reasons, was mainly in defense, because of regulation, because of the issues with the former shareholders, et cetera. Now we want to go forward with a plan and strategy around growth, by identifying the growth engines. So if we go to slide number 4, the summary of the strategy. One, fiber as a growth engine. Bezeq is leading the fiber revolution in Israel. It's already the largest footprint in Israel and within the next two years, most of Israeli homes will have access to fiber. The second pillar is yes. yes is a triple-play growth engine to accelerate fiber growth. The merger of Bezeq International's consumer division with the yes TV business is expected to enable marketing of an TV and internet bundle, while the company is migrating to full IP. So this will be a strong marketing arm for the group. 5G as a revenue growth driver at Pelephone. Pelephone is leading the 5G revolution in Israel and in the next few years, most of its subscribers will migrate to 5G, which will lead to ARPU growth, revenue growth and usage growth. Number four, establishing a leading ICT company. We will do a spinoff from the existing Bezeq International ICT division, to an independent company, focusing on the growing areas of the ICT market in Israel, which is migration - companies migrating to public cloud, and we'll talk a lot about that in a moment. And cyber security services. Number five, business portfolio diversification to create additional growth sources. The group will identify opportunities for entering into new,

adjacent areas that are relevant to our core capabilities. I will talk further about that shortly. And six, maintain a balanced capital structure and return to dividend distribution. The group strives to return to dividend distribution while maintaining the optimal leverage and credit rating within the AA group. The essence of the strategy is creation of significant growth engines while continuing to streamline the business. If we turn to slide number 5, we see that we're in a very interesting situation, we're in a transition period in most of our businesses, in terms of technology. In Bezeq, after many years of copper, we're now moving into fiber optics. We see that as an important opportunity to seize, and we're seizing it full force, and this will lead to revenue and ARPU growth. In the cellular market, the move to 5G, again, we will put efforts in that, and I will talk about that very soon, but it will result in revenue growth and also subscriber growth. And in television, we're migrating from satellite to IPTV. This will lead to a significant decrease in expenses and CapEx, and also help reduce churn. So these significant changes in technologies will also help us increase revenues, ARPUs, et cetera. Turning to slide 6, let's talk about the group's midterm ambitions. Expansion of fiber subscriber base, reaching two million households, continue leadership and growth in the business segment with a broad and diverse value proposition; a triple play offering by yes and full migration to IPTV, will support subscriber base growth and reduction in OpEx and CapEx. Deployment of the 5G network will help increase subscriber growth and ARPU; the spinoff of the ICT company and also some acquisitions to build strength in the area; and ESG as part of our current business. So we're talking about adjusted EBIDTA growth, free cash flow growth, and maintaining a high liquidity and credit rating. Let's talk about telecom market major trends. Turning to slide number 8. We see all over the world and also in Israel, the telecom market is undergoing some significant changes, in regulation. For the first time in many years in Israel, the regulator is encouraging infrastructure deployment, which is important for us, not only talking about price, price, price, but also understands the importance of infrastructure, and especially broadband infrastructure. There's a new competitive order, I would say, by the big guys entering with hyper scale data centers and services, which is also interesting. Consumer behavior, I would mention the TV streaming as a major trend, and also the technology changes that we talked about. So all of these to the growing demand for advanced communication infrastructures, which is great for us. So if we turn to the next slide, number 10, we already see the demand for communication and data services growing, both in fixed line and in mobile internet, traffic is growing exponentially. Let's move to slide 11 and talk a little bit about the Israeli economy. So if we turn to slide 12, we see that the Israel economy is stronger and growing much more than the European OECD economy, so we see that the increase in household expenditure is almost double than the OECD average. And also, the population growth rate is almost triple the OECD annual average rate. And also if we turn to the next slide, number 13, we see growth in real GDP much higher than in developed countries. So Israel is a growing country, and very interesting. Let's turn to slide 14, a few words about the Bezeq Group. I'll share with you our group vision which

you can see on slide 15. The Bezeq Group, as the largest and leading communication group in Israel, will lead and promote the digital revolution in Israel, through advanced infrastructure and services, for consumers and businesses, while striving for operational excellence and continuous improvement in business results. This is our group vision. If we turn to slide 16, we see the current group structure. Bezeq holds four major subsidiaries. If we move to the next slide, 17, we see that very soon we intend that Bezeq International will be split, part of it merged into yes, creating a new triple play company, and a new ICT company, which we'll all talk about it in a moment. Next slide, we see the group leaders, myself, Dudu, Ran and Tobi, most of you know us already. Let's turn to Tobi to talk a little bit about some of our financial data.

**Tobi Fischbein (CFO, Bezeq Group):** I'm on slide number 20 - we show here that over the past few years, we've seen a moderate decline of revenue but in 2021, in the first nine months, we actually are seeing a change here, with a small increase in revenues for the first time in several years. And on the adjusted EBIDTA, which is stable over the last few years. I'm going to skip slide 21 because we are well aware of our KPIs. But when we go to slide 22, we see that our financial standing has strengthened over the past three-four years, with a reduction of approximately 30% in gross and net debt, which allow us to maintain our high credit ratings. With this strong financial profile, we feel encouraged to go on and deploy our business strategy that's being shared with you today, including intensive CapEx deployment projects, such as fiber, 5G, and the rest of the strategy. Moving to slide number 23 - I'm sure that you are well aware of the relative size of Bezeq in the telecom market in Israel, both in terms of revenues and EBITDA, but not less interesting is to ask consumers what they think about the different players. When a third party, not us, goes and does a survey about customer perception and image of the different players in the broadband space, Bezeq comes up at the top, with a wide margin over the rest of the companies. And also – on slide 24 - When we look at the different parameters that form the image and the perception of the consumer, we see that Bezeq leads in most of them, such as fairness, innovation, leadership, excellent quality service. We do not lead in prices, because we charge premium prices, and this is also well known. But still, we bring more value for money than our peers. There is one area where we would aim to improve - our ability to offer a bundled offering, which is, obviously, constrained by regulation. The structural separation does not allow us to become a one-stop-shop for the consumer while others can in this market. We also want to share with you, on slide 25, an international comparison that we made in a few key financial parameters. You see that Bezeq comes up very well in terms of EBIDTA margin, right at the top. We are in a good place also in terms of our debt coverage ratios and financial standing. And on the return on capital employed, we are also at the high end of the spectrum, with 15%. I will now turn back to Gil to cover the key points of the business strategy.

**Gil Sharon (Chairman):** Okay. So, let's dive deep into our business strategy and go to slide number 27. We see the four pillars of our strategy. One, accelerated deployment of fiber optics and transition into unified internet, which regulation now will allow us. This will be a strong growth engine for Bezeq Fixed-line in the group. Second, Bezeq International's consumer division will be merged with yes, which will offer triple play bundles, combining with internet and TV. Three, Telephone 5G to increase ARPU and revenues. And the spinoff of Bezeq International ICT Division to a new company oriented towards ICT growth. So we're focused on development of infrastructure and growth engines. Let's move to slide 28. When formulating the strategy, we identified four business arenas that we're operating in. The first is the household arena, communication, data, and content services for households. The second is business telecom services. Then cellular services, and ICT services for businesses. The strategic initiative or direction in the first, for households, is invest to grow. In business telecom, maintain position. In cellular services, maintaining and strengthening the position. And in the ICT services, invest to grow. So, the growth engines will be fiber optics, reliable broadband transmission and data services, 5G for cellular, and focused acquisitions in the ICT arena. Let's go to the next slide, 29. We'll go into the first business segment, which is the communications and data, and content for households. Let's go to slide 30. First of all, we've adopted a customer centric approach. The household. Bezeq will become the gateway to the household, with both fiber optics and yes. The strong content of yes and the triple play, will be part of our strategy in the home. If we go to slide 31, we see that until a year ago, the penetration of fiber in Israel was very, very low, about 10%. But if we go to the next slide, 32, we see that with Bezeq entering this field we already have more than one million homes and in the next few years, we will reach two million and a little above. If we turn to the next slide, 33, we have this strong TV brand, yes, with actually two brands, Sting as the discount brand, and "yes plus" as our premium brand. If we combine Bezeq International, you can see on slide 34, we combine the strength of Bezeq International in the internet area and yes in TV, we create a strong force, a strong company, that will be focused on delivering growth in households with a TV and internet bundle, and this will be another force for the group in enhancing the fiber take-up rate. If we go to the next arena, the business telecom services, on slide 36, the main points of our strategy are increasing total income from businesses to a wide range of services. And most importantly, maintaining high quality service, reliability and technical support. These are some of the key issues that we focus on as a leader in the business segment. If we go to slide 37, we see revenue growth in the business segment, on the left side, and we can also see that Bezeq has an 80% market share in terms of revenues in this segment. Let's go to the third arena, on slide 38, cellular services, and immediately to slide 39. So, here again, our main point is continued growth in the consumer segment, with the right optimal value for our position with, again, serving with the fastest cellular network in Israel. We'll continue deployment of 5G, which will help increase our subscriber base and ARPU. If we talk about ARPU, let's go to slide 40. We show our cellular ARPU



compared internationally, and especially to European countries. We see that Israel's ARPU is the lowest in comparison to all European countries, and actually our packages are even larger. If we go to the next slide, we see some of the potential for improving ARPU. And on slide 41, we see that currently 20% of our subscriber base at Pelephone are on 5G packages or price plans, and we see in the near future it growing to 80%. As you see below, currently 5G packages are sold for approximately 8.5 shekels more than the average 4G packages. So you can see here part of the potential for ARPU improvement. And on the next slide, 42, as well as the recovery of roaming revenues, we see on the graph, this is international travel, and of course by COVID, it took a great hit. But sooner or later it will get back on track, and then the recovery of the volume of international travel holds a potential of a 3 to 4 shekel increase in ARPU due to roaming activity. If we go to the next arena on slide 43, to the ICT services for businesses, and immediately to slide 44, what are the main strategy points. The ICT market in Israel is enjoying strong growth. It's fueled by the transition of services and platforms to the cloud, to the public cloud. The new company, will enable management to focus and allocate resources to achieve growth in this area. We want to invest in order to build capabilities. Also, especially in human resources, and acquisition of some small companies with a lot of talent that will help us achieve significant growth. So here, we see an area that we believe there is hidden, unlocked value that we can unlock. If we go to the next side, on 45, we see the IT market in Israel is huge – revenues of 8.4 billion dollars per year, which is much larger than the telecom market in Israel. We're especially interested in the services portion, which is almost half, which is more than 4 billion dollars per year, with over 7% growth. Actually, parts of this are growing even much faster. If we go to slide 46, our business is already generating about 600 million shekels of revenue in this area. We're operating mostly in the bottom part, as you can see, integration and communication services, these are our traditional strongholds. But we also have already some business in cloud, some business in cyber security, and data centers. Our strategy is to enhance these new business lines of public cloud, which we'll talk about it in a minute, cyber security and data centers – these are the growing areas of the IT business. We believe that with our market presence and strong customer base, we can definitely achieve that. If we go to the next slide, 47, we see why there's accelerated growth expected in Israel because of the public cloud. The government issued a huge tender called the Nimbus Project, to set up in Israel hyper scaled data centers, and two companies won this tender - Google and AWS, and they are setting up what they call regions, in Israel, which is not very common for these companies. Also, in addition to Amazon and Google - Microsoft and Oracle will also set hyper scales in Israel. This will accelerate the transition of government ministries, the military, and also large private sector companies to the public cloud. Someone has to help them do that, to enable the migration, and this is where we want to come in. So, now we talked about the four arenas and our strategy within them. Let's talk about some other important things. Turning to slide 48, it's also important to improve the fundamentals, which is operational excellence and digital transformation. We will work

on that. Continued synergies, between the companies and the subsidiaries, and the merger will also help with that. We will continue to strive for removal of structural separation, which will also enable us to realize additional synergies. Talking about that, let's look at slide 49. We see on the left-hand side in the subsidiaries, over the last few years, we decreased head count by one thousand four hundred employees, and we decreased total salary costs by a net of 174 million shekels. Actually, the decrease was even more than that, but there were some salaries going up for the remaining employees, so this is the net improvement. We're planning, in the next three years, a further reduction of 500 more employees in these subsidiaries, and above that, another 200 more, that will go down in the call centers, service centers, while the ISP business is going down at Bezeq International and actually moving into Bezeq Fixed-line, with not that many additional customer service reps. So, in addition to all that, I think we should also be looking, on slide 50, to give some thought to diversification of our portfolio. We are operating in a market that is not a very growing market, quite stable and we have high market share. So we identified, in the four arenas, growth engines, but we also need to look outside the business. The group will seek investment opportunities in areas adjacent to our core capabilities, which are mass market, in the Israeli market, marketing, selling, and servicing all the Israeli households and businesses. We will look for investment and acquisition opportunities in these areas, to reach some new sources of revenue growth. Now let's talk a little bit about some vectors - our KPIs. Tobi, please.

**Tobi Fischbein (CFO, Bezeq Group):** Thank you, Gil. We have described here our midterm ambitions, and when we say midterm, we mean in the next three to five years. I'm on slide 52, focusing first on the communications data and content services for households arena. It's the first arena that Gil described beforehand. When we see the retail internet, we see subscribers growing by 150 to 200 thousand over this period. Remember that today we have about 60% market share in internet infrastructure, both retail and wholesale, with retail ARPU growing from 99 to over 130 shekels. Now this growth is composed of a combination of existing trends: first in the copper network and also with the customer premises strategy that we have successfully executed on, and now moving into fiber, we expect to continue to see ARPU expansion as we saw in previous periods. In addition, there is a regulatory change ahead of us in April 2022, which will see Bezeq being able to offer a unified internet offering. We expect also to capture the value of the ISP side, which is not today in the Bezeq Fixed-line part of the business. So, this explains also why we are aiming higher than 130 shekels. Whereas the 99 shekels that we have in 2020, obviously, does not include that ISP component. When we look into the TV activities, we see subscriber expansion to over 600 thousand, and we see ARPU erosion due to a change in the mix of premium and basic offerings of yes. yes has a very successful STING basic offering, which helps to support the subscriber base, and also reduce churn. This is why, among others, we would see this kind of reduction in ARPU. Moving to the next slide, to the cellular KPIs. We see

Pelephone continuing the subscriber growth shown over the past several years to over 2.7 million, with ARPU increasing to the 60 to 65 shekels range, based on existing trends and what Gil explained before, about catalysts from roaming on one hand, and the contribution from 5G, on the other hand. On the next slide, we present our capital management strategy. The board of directors has adopted this approach, which calls for creating value for shareholders while maintaining our credit rating within the AA group. First of all, allowing for CapEx investment that provides and ensures long term growth for the group, allowing debt coverage ratio levels that enable us to maintain those high credit ratings, being able to make investments or acquisitions as needed and as opportunities arise – and Gil spoke about it a few minutes ago – as well as a return to dividend distribution while maintaining financial strength and the group's stability and flexibility. With that, I will summarize the midterm ambitions, which call for growth in adjusted EBIDTA, increasing free cash flow as compared to 2021. We will see a temporary increase in CapEx due to the fiber project and also the deployment of 5G over the next several years. But then we will see CapEx coming back to the multi-year average, and as mentioned, we aim to return to dividend distribution while maintaining a high credit rating. Not least, we have brought ESG into our strategy, because we want to make sure that when we make business decisions, we are conscious of ESG considerations. We have worked on this over the past two years, trying to map our activities, and see where are the opportunities for improvement. Our ratings have already improved on ESG over the past two years quite significantly, but there is still a lot of work to do, and we plan to continue to be focused on this in the future. With that, let me turn to Gil to summarize.

**Gil Sharon (Chairman):** Okay - the last slide, number 58, is actually returning us to the summary that we presented on the first slide. We see the six pillars that we've talked about, the fiber, the triple play at yes, the 5G, the ICT, business portfolio diversification and balanced capital structure, and return to dividend distribution. I think with our well proven execution capability, we can deliver on this strategic plan and achieve our financial goals. Thank you very much, and we're open to questions and discussion.

**Tobi Fischbein (CFO, Bezeq Group):** Operator, we can go to 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.

**Chris Reimer (Barclays):** Hi, this is Chris Reimer on for Tavy. Thank you for taking my questions. You've mentioned, in the presentation and in your opening comments,

the intention to resume dividends. Can you give any details on maybe when that would happen?

**Tobi Fischbein (CFO, Bezeq Group):** What we have mentioned is an approach to our financial policy that will call for the return of dividends. We have not yet decided on a specific dividend policy, but once the board of directors will adopt one, of course we will announce it.

**Chris Reimer (Barclays):** Okay. And regarding fiber subs, competitors are giving numbers as to active subscribers. Just wondering why you haven't done the same, and if not, can you talk about the pace of pickup, maybe, in the higher – the higher speeds you're offering?

**Dudu Mizrahi (CEO, Bezeq Fixed Line):** Hi, this is Dudu. We are not yet publishing the take-up due to the fact that we are only at the beginning of the deployment, and starting to offer services. This is the third quarter since we started offering services, and I think that once numbers will be significant we will publish them. I think we are quite satisfied with the take-up, we are carefully looking at what our competitors are doing. And I think we are quite satisfied with the current take-up, and it's still – we are still on a growing trend. I think we will discuss the question whether to publish the numbers on the annual report.

**Chris Reimer (Barclays):** Okay. Thanks for that. That's it for me, I'll go back to the queue.

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

**Jerry Dellis (Jefferies):** Yes, hello. Thank you for taking my questions. I have two questions, please. You mentioned a CapEx pickup in the near term. Could you quantify what sort of CapEx pickup we might be looking at, and for how long, please. And then secondly, just related to the acquisition policy that you're contemplating. I'd be interested to understand your, sort of, appetite for risk, when you're thinking about potential acquisition targets, in, sort of, adjacent areas. You've mentioned the sort of leverage parameters and so forth, but I'd be most interested in your appetite for risk, and the sort of return on capital thresholds that are likely to accompany that. Thank you.

**Tobi Fischbein (CFO, Bezeq Group):** Thank you, Jerry, this is Tobi. I'll take the CapEx question and let Gil answer the acquisitions one. So, if you look at our CapEx group-wide level, you see that we are now going over the 20% CapEx to sales level, and we have increased our guidance on CapEx for 2021 from 1.7 to 1.8 billion shekels. We believe we will remain more or less in this area for the next year. I would expect that in the next year or two, CapEx will remain at the similar CapEx to sales levels, and then

we'll start to come back again below 20%, in line with our past average, before we started the fiber project.

**Gil Sharon (Chairman):** To answer your second question - we can go back to slide 55 where we talked about our cash flow and capital management, and we see, sort of, our hierarchy. When we talk about managing our cash, the hierarchy, is first to have the right amount of CapEx for growth, and this is related to your first question. Then, the second is our debt coverage and to maintain a credit rating of AA. The third is the acquisition. So only after we ensure that we have enough cash for CapEx and enough cash for remaining in the AA group, then we look at acquisitions and dividends. Returning to dividends is also a very important part of our strategy. So I think we're not looking at huge acquisitions, but we're looking at acquisitions that we can do and see them evolving into high growth and high returns in the future. So I think I explained the appetite for risk.

**Jerry Dellis (Jefferies):** That's great. Thank you very much.

**Tobi Fischbein (CFO, Bezeq Group):** You're welcome.

**Gil Sharon (Chairman):** Thanks.

**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 a period of 3 hours, on the company's website, at [www.bezeq.co.il](http://www.bezeq.co.il). Mr. Fischbein, would you like to make your concluding statement?

**Tobi Fischbein (CFO, Bezeq Group):** Yes, thank you. We appreciate your attendance in our quarterly earnings call. We look forward to meeting you in investor meetings over the next few months, and then talk again on the full year 2021 earnings call in March. Thank you.

**Operator:** Thank you. This concludes Bezeq's third quarter 2021 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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