

"Bezeq" The Israel Telecommunication Corp., Ltd.**Event Transcript****Q1 2025 Financial Results**

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DISCLAIMER

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Q1 2025 Financial Results

Yohai Benita (CFO, Bezeq Group): Welcome everyone and thank you for joining us on Bezeq's 2025 first quarter earnings call. I am Yohai Benita, CFO of the Bezeq Group. Joining us from the senior management team today, we have Mr. Tomer Raved, Bezeq's Chairman, Mr. Nir David, Bezeq's Fixed-Line CEO, and Mr. Ilan Sigal, CEO of Pelephone and yes. Before we start the call, I would like to direct your attention to the Safe Harbor statement on Slide 2 of our presentation, which also applies to any statement made during today's call. We would like to inform you that this event is being recorded. Following the presentation of our results, we will have a Q&A session. With that said, let me now turn the call over to Tomer, for his opening remarks. After his introduction, I will continue the presentation of our group's financial highlights, followed by Nir, who will discuss Bezeq Fixed Line results, and Ilan who will cover the results from Pelephone and yes. I will conclude the presentation with Bezeq International results.

Tomer Raved (Executive Chairman, Bezeq Group): Thank you Yohai and welcome, it's great to have you onboard. Let's start on Slide 3. This was another quarter of strong execution, bringing us meaningfully closer to achieving our strategic goals. As we enter our next phase, we are well positioned to accelerate growth, further enhance profitability and lead through innovation, both as enabler and adopter of AI and advanced digital infrastructure. The Group's core revenues grew 2.4% due to growth in Fixed-Line and Pelephone, and Adjusted Net Profit grew 6.7%. We continued to grow in our strategic drivers recording a 36% increase in fiber take-up and 18% growth in 5G subscriber plans. The Group's retail broadband subscribers, which include fixed-line and yes, grew 2.2%, and fiber take-up reached 33%. We are proud of these stats which further demonstrate the leadership of Bezeq's fiber infrastructure alongside yes' ability to accelerate retail fiber through its premium TV bundle. Last week we upgraded our 2025 guidance for Adjusted Net Profit and Adjusted EBITDA due to the positive impact of the yes-Partner TV deal. There has been significant progress on the regulatory front, including the completion of the copper network switch-off reform and progress regarding the structural separation, with the MOC officially declaring that it will issue its resolution during 2025. Moving to the next slide, our technological and business roadmap is on track to reach our mid-term KPI targets, including the completion of the fiber deployment this year, the migration from satellite TV to IP in 2026 and the transition to 5G. I would like to emphasize this page as we approach the end of the current roadmap, putting legacy revenue and infrastructure behind with primary focus on top-line and FCF growth leveraging our core advanced network and innovative AI solutions. In a nutshell, we serve three roles in the AI era: 1) Enabler, as we empower the AI ecosystem with scalable connectivity and data infrastructure; 2) Provider, as we deliver AI solutions to enterprises and consumers; and 3) Adopter, as we harness AI to optimize networks and drive operational efficiency. In the coming months we will be

able to provide clear KPIs to our investors, corresponding to these capabilities. Turning to slide 5, let me point out that free cash flow was down due to tax assessments paid in the current quarter and the receipt of a tax refund in the corresponding quarter. After adjusting for tax payments, free cash flow decreased by only 4%. Turning to the next slide, here you can really see how even in a year with a volatile geo-political situation, our core business continues to perform and outperform. Total fiber subscribers as of today, reached 885K with over 2.7mm homes passed. 5G subscriber plans reached 1.3mm and ARPU grew approximately 5%. yes ARPU from subscribers, which includes the TV and fiber activity, was up 4% and reached 189 NIS. I will now turn the call over to Yohai, who will elaborate further on the Group results.

Yohai Benita (CFO, Bezeq Group): Thank you, Tomer. Moving to Slide 7 - We show a 2.4% increase in core revenues due to growth in Bezeq Fixed-Line and Pelephone. Adjusted Net Profit grew 6.7% due to a decrease in the impairment of assets in yes. Turning to the next slide, we show our operating expenses. Salary expenses increased due to salary increases and a decrease in reimbursement received from National Insurance for employees in military reserve duty in Bezeq Fixed-Line. Other expenses increased mainly due to a provision for a conditional grant to yes employees. The next slide shows our quarterly operational metrics. Broadband retail ARPU continued to grow with an increase in yes ARPU from subscribers due to fiber growth. Slide 10 highlights our balanced capital structure with net debt at 4.7 billion shekels and a coverage ratio of 1.4 times. The two Israeli rating agencies recently reiterated their AA and Aa2 ratings. We remain committed to maintaining our high credit rating. Moving to the next slide, in accordance with our 80% dividend payout policy, last week we distributed 392 million shekels, or 14 agorot per share. Moving to the next slide, we show the Group's updated guidance for 2025. Further to the update this month, we are now forecasting for 2025. Adjusted EBITDA of 3.75 billion shekels, Adjusted Net Profit of 1.32 billion shekels, CapEx of 1.75 billion shekels and fiber deployment to 2.9 million households. I will now turn the call over to Nir, who will share more detailed results from our Fixed-Line operations.

Nir David (CEO, Bezeq Fixed-Line): Thank you Yohai. Turning to Slide 13, Fixed-Line core revenues increased 2.6% to 973 million shekels, mainly due to higher revenues from infrastructure projects, broadband services and transmission and data communications. Broadband retail fiber customers reached 568 thousand today and ARPU rose 5.5% year-over-year to 134 shekels. On the following slide, we show Q1 financial highlights with Adjusted Net Profit increasing 1.2% to 261 million shekels, mainly due to lower financing expenses. Free cash flow was impacted by tax assessments paid in the current quarter and a tax refund received in the corresponding quarter. Turning to the next slide, we show continued fiber deployment reaching over 2.7 million homes passed today, with approximately 900 thousand active subscribers in our fiber network today, resulting in a take-up rate of 33%. Moving to the next slide, we show the take-up trend. Q1 saw 33 thousand retail fiber net adds and 20 thousand

wholesale fiber net adds. Turning to the next slide, broadband revenues were up 0.8% despite the decrease in wholesale tariffs for use of our passive network. Other revenues grew 27%, due to higher revenues from infrastructure projects. With that, I'll now turn the call over to Ilan to discuss Pelephone and yes.

Ilan Sigal (CEO Pelephone and yes): Thank you, Nir. Moving to slide 18, Pelephone posted its highest quarterly revenues in 7 years, reaching NIS 525 million, due to continued growth in 5G subscriber plans and roaming services. On the next slide, we show stable Adjusted EBITDA despite the increase in frequency fees resulting from the termination of the MOC discount period. Adjusted Net Profit was down 8.3% due to higher depreciation and financing expenses. Moving to the next slide, 5G subscriber plans reached approximately 1.3 million subscribers as of today, amounting to 60% of postpaid subscribers. The next slide shows the Q1 key operational metrics. As seen, we recorded an additional increase in postpaid subscribers. ARPU rose 4.7%, or 2 shekels year-over-year, due to higher ARPU from cellular plans and roaming revenues.

Turning to yes on slide 22. Revenues increased 1.3% to 319 million shekels due to higher revenues from the TV + fiber bundle. We continued the migration from satellite to IP with 478 thousand IP customers today. We posted record quarterly growth with 12 thousand net fiber subscriber adds reaching 90 thousand as of today. Moving to the next slide, we recorded higher Adjusted EBITDA and Adjusted Net Profit due to higher revenues and streamlining of expenses. On the next slide, I would like to highlight the 7 shekels year-over-year growth in ARPU from subscribers, due to higher revenues from fiber plans. With that, let me now turn the call back to Yohai.

Yohai Benita (CFO, Bezeq Group): Thanks, Ilan. Moving on to Bezeq International on Slides 25 and 26. We recorded stable core revenues from business customers due to higher ICT revenues, offset by lower revenues from business ISP and integration services. Adjusted EBITDA and Adjusted Net Profit were down, mainly due to lower revenues from consumers. We are continuing with the implementation of the employee retirement agreement for the years 2025 through 2027.

With that, I will open the Q&A session. If you would like to ask a question, please raise your hand virtually. As you hear your name, please be sure to unmute your microphone, and ask your question. For the benefit of the people in the room, please introduce yourself and share the name of the company you represent. We will address questions as we see the hands raised. I will now pause to poll for questions.

Hi, Tavy.

Tavy Rosner (Barclays): Hi. Yeah, sorry. Poor internet connections. Thanks for the presentation. A couple of short questions: It seems that the EBITDA that you posted missed the consensus that you guys compiled. So I'm wondering where did you think it came from? I mean, from what I can tell from my model, it's yes, that came out a bit

below. So I'm wondering what's going on there and what's the plan for the rest of the year?

Tomer Raved: I'll touch the EBITDA levels first. From our perspective, EBITDA was as expected. And we also guided for a flat-ish year ahead of 2026, with few impacts to this year's EBITDA as we alluded to in the previous quarter.

One, we are still providing for the universal fund. As you can see, almost 10 million shekels a quarter across the group, slightly more than that. Also, we have the spectrum fees that are significantly higher than last year. That's almost 10 million shekels a quarter. Other than that, we see roaming gradually recovering. So, no other elements and no surprises from our perspective.

We feel very confident with where we track vis-a-vis the revised guidance, which was slightly higher than expected given the run rate we're seeing. We feel very comfortable on that. On the yes side, we also had a strong quarter, 12% up on Adjusted EBITDA. We showed stability in subscribers overall, and ARPU growth thanks to the fiber additions when you look at the total company ARPU. But other than that, we have not seen any surprises there as well. This quarter, the yes results are before the partner TV impact, both on the accounting side and on the financial side.

Tavy Rosner (Barclays): Ok, thanks for that. And on the internet, maybe I got the number wrong, but it showed me that ARPU was up over 5%, but that internet revenues were up less than 1%. Maybe I got it wrong. But if not, what's the mitigating factor there?

Tomer Raved: You see ARPU up due to the ongoing conversion between copper and fiber. We saw a slight decline in total broadband subs on the fixed-line business. However, we see more than making up for that at the total group-wide level, where there was over 2% growth in retail broadband, including yes. What you also have on broadband revenues is some of the reduced wholesale passive rates that were not in effect in Q1 last year.

Tavy Rosner (Barclays): Ok, thanks for that. And lastly for me, if I may, you mentioned the MOC working on a resolution for the removal of structural separation. What kind of outcome can we expect? Is there any chance that they may say, you know what, it can stay as is? It's been going on for 20 years, no reason to change now or unlikely to happen.

Tomer Raved: First, we don't know what the outcome is going to be. What we do know and what changed is that the MOC said it will announce its resolution on the matter in 2025 as a key target for this year. We are in a formal process with them. I'm sure the

market will hear more in the coming weeks and months about the process more formally from us and from the MOC. But we stand behind the view that it should be fully removed and allow for full merger without any restrictions. We are working on that, on formal advanced work with the MOC and we'll communicate more information to the market once we have it in the coming weeks.

Tavy Rosner (Barclays): OK, thanks, guys. I appreciate it.

Yohai Benita: Hi, Ondrej. How are you?

Ondrej Cabejsek (UBS): Hi, everyone, I'm fine. How are you? It's Ondrej from UBS. Thank you for the presentation. I have a couple of questions as well. Maybe starting with the regulatory environment, following up on the previous question. So basically, the other topic that you guys highlight is the copper shutdown project. So if you can maybe give more color on any new specifics coming from the talk that you're having with the MOC, the timeline of that or the potential impact that you already are, I guess, internally looking at because we've seen with other incumbents in the space that this can potentially be a material boost to profitability, both from an OPEX leasing as well as CAPEX perspective over the midterm. So that's one question.

Tomer Raved: So, I'll touch the copper one. First, within our guidance and our midterm targets, we did not really budget for any of the copper switch-off reform because it was not final before this quarter. And now that it's final and we are very satisfied with the results, we started implementing that. You're right. We will have, even as soon as this year, some level of CAPEX and OPEX savings from the fact we do not need to roll out new copper to new homes, which is part of the dated universal coverage requirement around copper, which is not there anymore. Secondly, in areas where we are fully covered with fiber, we can start gradually, and this is the impact that you'll see over the next three to five years, to shut down copper. We are not quantifying the outcome of that, but obviously there is some element of selling copper, which is not huge, but nice. Also, energy savings and significantly less malfunctions that happen once you have only a fiber network. And we've seen great precedents with Telefonica and KPN in doing the same thing, especially at Telefonica, which is a great case study. And also, the fact that we don't need to maintain basic maintenance OPEX on an expensive copper network. So, all these will come to life and will be quantified to the market, but it's premature.

Ondrej Cabejsek (UBS): Thank you, Tomer. The other question I had was about the Partner TV deal that you signed. You obviously quantified the impact in your guidance from an EBITDA and net income perspective. But I was also wondering, how does that translate into free cash flow uplift? Would that be kind of the post-tax EBITDA equivalent, or is there anything else attached to this that you have to invest in, for

example, on the CAPEX side that would reduce that impact? And then if you have any notion of, does that change at all, for example, the retail dynamics on the TV side whatsoever, in the sense that, for example, Partner now has a different cost base relating to TV, and the prices on their product could go up or down. Thank you.

Tomer Raved: First, on the second part of the question, nothing to comment about the retail dynamics. We think the competition will stay intense and rational and the same, because it's basically a passive platform from that perspective. So that doesn't change anything. From a financial point of view, we have the one-time impact, given the write-up at yes on the DCF side, which we quantified and led to the impact on the guidance. You will see this specifically in the yes valuation that will be published in the next quarter.

In terms of EBITDA and free cash flow impact, I can say that, and we did publish that it's going to be a minimum of high single digit, but realistically, it's probably going to be low to mid-teens. It really depends on the TV subs that Partner is paying for, which is on a per-sub basis with a minimum guarantee. But that's really all we can share on that matter.

Ilan Sigal: We will see it starting at the end of this year.

Ondrej Cabejsek (UBS): Thank you. You mentioned this was a one-off, so there are no recurring revenues attached to this?

Tomer Raved: No, there is recurring revenue and cash flow. There's a one-off significant impact on a net income basis because of the re-evaluation of the yes asset based on DCF. There's a one-off impact on net income from that, and there's an ongoing recurring significant revenue and EBITDA impact on yes.

Ilan Sigal: As I said, we'll start to see the impact on EBITDA and free cash flow at the end of this year.

Ondrej Cabejsek (UBS): Understood. Thank you very much for answering my questions.

Yohai Benita: Hi, Alex.

Alex Wright (Jefferies): Hi, everyone. Good to see you. Alex Wright from Jefferies. So, two questions from my side, please. You're clearly well on track to meet the 2.9 million homes passed with fiber by the end of this year. It looks like you've added about another close to 50,000 already this quarter as well. So, could you elaborate on whether you are basically building the existing plan faster than expected? Is there some

seasonality to watch out for throughout the rest of the year? Or are you finding new geographies already that your kind of adding to the schedule in terms of build out? Just so I can figure out the kind of pathway relative to the guidance that you've given on that. And then the second question is on Pelephone and the service revenue growth there. Can you specify how much of a tailwind from roaming you're seeing now? And is what you see a sustainable underlying growth rate in mobile service revenue at the moment?

Tomer Raved: Yes, I'll touch briefly on the fiber market and then Ilan can touch on roaming. You're right, we are on track to complete fiber deployment. 2.9 million would be the max, basically reaching most of the country and the limit of what we can reach from a fiber coverage perspective. Obviously, with the growth of the population, we always have a smaller tail. But the fiber project, as we know it, with the elevated CAPEX, will be completed before the end of this year. You will start seeing the CAPEX reduction going from the 20%-ish CAPEX margin to say down to the 16% to 18% level we guided to.

So that's on that. We do not have a significant CAPEX project. Obviously, we're investing in AI and investing in a lot in data infrastructure around that. But we already upgraded the network and deployed what we need for both the business and private sectors to allow for the next probably five to 10 years at least. That's on the fixed line side. CAPEX will stay elevated on the 5G side in the coming years as we roll out the rest of the country with the different 5G spectrums, both mid-band and high-band. I will let Ilan, touch on roaming.

Ilan Sigal: On the growth of the revenues in this quarter, it's because of two vectors. One is the growth in 5G plans. There are more and more customers that take the 5G plans, the regular 5G and the 5G Max. The second is the return of Israelis to once again flying abroad. It's a great trend for this quarter. And we hope that this trend will be also in the next quarters because as you've seen two weeks ago, there was a stop in the flights to Israel. So we hope it will come back. And the trend that started in this quarter will continue to grow in the next few quarters.

Alex Wright (Jefferies): Okay, thank you. Are you able to quantify the impact of the roaming? Because I know in previous quarters...

Ilan Sigal: We do not share this data.

Alex Wright (Jefferies): Okay. Thank you so much.

Yohai Benita: Next question is from Siyi from Citi. Hi, Siyi.

Siyi He (Citi): Hello. Hi. Thank you for taking my questions. I have two, please. Hopefully, they're quick. The first one is really on the tax assessment that led to the free cash flow missed this quarter. I'm just wondering if there will be a refund to offset that and whether you're still happy with the current consensus free cash flow for the year, which is at a similar level to 2024.

And my second question is just a follow-up on the copper decommission. I understand that it may be too early to quantify the benefits. But I was wondering, will you think about the current customers either through retail or wholesale on your corporate network? And is there a plan to accelerate the migration of them off to fiber or to other network? Because my understanding is that to extract the biggest benefit from copper is after those customers being migrated off. Thank you.

Yohai Benita: I will touch the first question on free cash flow and tax. And Tomer will relate to the copper. The tax assessment is something that we anticipated. It's in our free cash flow target as we provided. And we still stand behind the target that we gave. So there is no change from our point of view.

Tomer Raved: From a comparative perspective, it's probably not going to change what you see on an ongoing regular year basis, not anything unique. On your copper question, the reform, without going too much into detail, actually allows us to start to force customers, wholesale and retail, to switch from copper to fiber once we reach an 85% penetration in a certain neighborhood, which is not that complicated. We already have 33% take-up in the network, but that's not the way you should view it. In a certain area, city or village, once you have 85% network penetration on your fiber, you can basically switch off the copper network and start migrating customers. That's in the next five years. After year five, you can do it to everyone. You don't need to abide by the 85% anymore. So there is flexibility and a path to do that without incurring any significant costs. In the initial draft reform, we did have some concerns around some potential spending, unnecessary ones around that. These concerns were addressed and removed when the final reform was published. So we feel very satisfied with what's out there.

Siyi He (Citi): Thank you very much.

Yohai Benita: If there are no further questions at this time, I would like to... Sorry, we do have a question. Hi, Sabina from Leader. Sorry.

Sabina Levy (Leader): Hi, guys. I have one question. Can you please provide us some color regarding the competitive environment in the mobile sector? Because we saw Partner reported in its results the same trend that I saw in Pelephone's results. We see stable ARPU and a stable customer base. Just to understand what the environment is

there and how should we evaluate the path going forward? Should we see any additional improvements? And not only seasonality, but maybe some pricing dynamics. Thank you.

Ilan Sigal: Hi, Sabina. The only thing that I can say is that the competition is stable, it hasn't changed.

Sabina Levy: Okay, thank you.

Yohai Benita: If there are no further questions at this time, 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. We look forward to speaking to you on the second quarter 2025 earnings call. Thank you.