

"Bezeq" The Israel Telecommunication Corp., Ltd.



Event Transcript

Q3 2020 Financial Results

Tuesday, December 1st, 2020, 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. 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 2020 Financial Results

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Bezeq's third 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 Chairman, Mr. Dudu Mizrahi, Bezeq Fixed-Line's CEO, Mr. Ran Guron, CEO of Pelephone, Bezeq International and yes, Mr. Yali Rothenberg, Bezeq Group's Outgoing Chief Financial Officer and Mr. Tomer Shani, CFO of Pelephone, Bezeq International and yes.

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. 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 after which management will be available to answer questions.

Gil Sharon (Chairman, Bezeq Group): Thank you, Naftali. Let's start on Slide 3 - Overall, as of the end of the third quarter of 2020, the total impact of the COVID-19 pandemic on the financial condition of the Group companies was immaterial. In spite of this, the Group's companies continued to work hard to provide services to our business and private customers, while complying with government guidelines and managing risks arising from the pandemic.

Let me remind you that Bezeq and telecommunications companies as a whole are deemed as an essential sector by the government, and that 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. As people spend more time indoors, we

continued to see an increase in retail Internet lines and traffic and increase in fixed line telephony usage. In terms of performance of subsidiary companies, mobile roaming revenues were negatively impacted by the pandemic as people traveled less. Offsetting that was growth in Pelephone postpaid subscribers, positive free cash flow in yes, and increase in yes IP subscribers. 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. During this quarter, we launched our 5G network and recently announced the launch of fiber.

Turning to the issues at Bezeq International on Slides 4 through 6 – As part of the preparation of Bezeq International's financial statements for Q3 2020, discrepancies in net asset balances beginning in 2002 were discovered internally by Bezeq International's CFO. The cumulative effect of the discrepancies resulted in an impairment in the 2019 reports. The financial data in the December 31, 2019 and September 30, 2019 reports were restated in order to reflect the effect of the above amendment.

Since identifying the error, Bezeq International acted with the assistance of external third-party consultants and experts to locate and correct the errors and to prepare revised financial statements. We take the failures discovered extremely seriously. The board has appointed an independent external auditor firm, Fahn Kanne, led by CPA Mickey Blumenthal, to investigate all the incidents and recommend the necessary course of actions to correct the failures and prevent them from happening in the future. In addition to the accounting issue, the financial results were impacted by the impairment of assets in Bezeq International due to its adjustment for paying customers who have not used Bezeq International's ISP services for an extended period. Details of the restatement and impairments are shown in the charts in slides 5 and 6.

Turning to slides 7 and 8 - despite the remaining uncertainty in the economy as a result of the pandemic, we resumed publishing our outlook for 2020. After a review of the Group's performance, we decided to update our guidance for annual adjusted net profit from 950 million shekels to 1.05 billion shekels, annual adjusted EBITDA from 3.5 billion shekels to 3.6 billion shekels while we expect CAPEX to remain at 1.5 billion shekels for the year.

I would also like to point out the strength of the group, as presented later on slides 10-12, which show that revenues and adjusted EBITDA remained at a level similar to the corresponding period, considering the drop in roaming revenues.

We see that as a strong position going forward in the deployment of our ultra-fast networks: both Bezeq fiber and Pelephone 5G.

Before I turn the call to Yali to talk about our financial results, I want to thank Yali for his commitment and dedication to Bezeq over the last three years. Under his leadership, Bezeq has improved its financial profile and become a stronger and better company. Yali, on behalf of all the colleagues around the Group, I wish you the best on your future endeavors.

Yali Rothenberg (Outgoing CFO, Bezeq Group): Thank you, Gil. It's been an absolute privilege for me to work with you and others at Bezeq. I'm proud of the work that we've done together in laying a solid foundation for what is sure to be an exciting new chapter for the company with new and leading telecommunications offerings. That being said, this will be my last call with the Company, as I turn to my new role as the Accountant General and Treasurer of the State of Israel. I look forward to watching Bezeq continue to grow.

Let's turn to Slide 10 – The Group's strong financial results in the third quarter continued to 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 2.18 billion shekels, down 3.1% from the prior year quarter. The decrease in revenues was due to a decrease in roaming revenues partially offset by an increase in Bezeq Fixed-Line revenues.

On Slide 11 – Group-wide gross salary expenses were in line with the prior year quarter. Decrease in head count due to the comprehensive streamlining plan was offset by an increase in Bezeq Online due to increased activity.

Meanwhile, group-wide operating expenses decreased from 813 million shekels a year ago to 790 million shekels in the third quarter of 2020, a decrease of 2.8%. The decrease in operating expenses was due to continued streamlining across business segments.

Turning to Slide 12 – Adjusted EBITDA in the third quarter of 2020 was 914 million shekels compared to 960 million shekels in the same quarter of 2019, a decrease of 4.8%.

Group-wide adjusted net profit increased 39.6% to 289 million shekels in the third quarter from 207 million shekels a year ago, primarily due to a decrease in financing expenses in Bezeq Fixed-Line due to the early repayment of debt in the corresponding quarter.

Moving to Slide 14 – Free cash flow in the third quarter was 285 million shekels, compared to 358 million shekels in the same quarter of 2019. The decrease in free cash flow was mainly due to a refund of Betterment Levy in the prior year quarter in connection with sale of the “Sakia” complex. After adjusting for the impact from “Sakia”, free cash flow was in-line year over year.

Gross capex in the third quarter amounted to 442 million shekels, compared to 404 million shekels in the same quarter a year ago. The increase was mainly due to a refund of the Betterment Levy in the prior year quarter in connection with the sale of “Sakia”, increased capex in the BE router and customer premises equipment as well as the 5G deployment.

On Slide 15 – We have broken down subscribers and ARPU by different business segments. Let me point out that subscribers in cellular and retail broadband segments moved up during the quarter, and retail broadband ARPU grew to 100 shekels, compared to 98 shekels in the third quarter of 2019.

Lastly, turning to Slide 16 – 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 869 million shekels in net debt, as well as the decrease in net debt to EBITDA leverage ratio, from 2.4 in the third quarter of 2019 to 2.2 in the third quarter this year. In addition, the outlook of our debt ratings remains stable by the Israeli global rating agencies.

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 third quarter, and again 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, which was partially offset by a moderate decrease in revenues from telephony services. At the same time, we continued to record an increase in the number of retail broadband subscribers, as you can see on Slide 18. In addition, we also grew total broadband lines while continuing to accelerate the sales of related equipment.

ARPU increased year-over-year as our diverse and complementary home products including Bspot, Be Mesh, Be Router and other value-added services continued to gain penetration into customer premises.

On Slide 20 –The Government of Israel approved the nationwide deployment of fiber optics in accordance with the final recommendations of the inter-ministerial team. In

the coming weeks, we will begin our aggressive deployment of fiber with hundreds of teams operating simultaneously throughout the country. By the end of 2021, we expect our fiber network to reach about one million households in Israel. 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 21 – 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 272,000 in the third quarter of 2019 to 520,000 today. About 52% of our retail customers choose to connect with the BE router. Meanwhile, the number of customers with Bspot and Mesh increased by 140% over the same period.

On Slide 22 – our telephone offering saw a significant increase in traffic during the quarter, with outgoing minutes up 15% year over year and incoming minutes up 24% year over year. As a result, average revenue per telephony line increased year-over-year.

Turning to the next Slide – In addition to broadband, we saw revenue growth in the transmission & data and cloud & digital services segments. Revenues for the transmission & data segment was up 2% year over year due to an increase in revenues from transmission services for ISPs. Revenues for the cloud & digital segment was up 2.9% year over year due to an increase in revenues from virtual exchanges and cloud services for businesses.

Moving to Slide 24 – Revenues in the third quarter were 1.04 billion shekels, compared to 1.03 billion shekels in the prior year quarter. The increase in revenues was due to an increase in most revenue items that 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 due to an increase in telephony traffic, as well as terminal equipment fees.

Turning to Slides 25 and 26 – Adjusted EBITDA in the third quarter was 663 million shekels compared to 657 million shekels in the same quarter of 2019. Meanwhile, adjusted net profit increased 75.1% year over year to 296 million shekels, mainly due

to higher financing expenses in the corresponding quarter resulting from the early repayment of debt. Revenues and Adjusted EBITDA in the nine-month period were slightly up compared to the prior year period.

In summary, during the third quarter, broadband Internet revenues grew due to an increase in subscribers and ARPU. In addition, we saw tremendous success in sales of the BE router and wifi enhancers. Going forward, I believe the launch and nationwide deployment of fiber as well as the unified broadband Internet offering that will include the ISP portion, will drive continued growth in the private broadband Internet market.

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

Ran Guron (CEO, Pelephone, Bezeq International, yes): Thanks, Dudu. We finished the quarter with good operational results, despite the impact on mobile roaming revenues. The companies continue to show improvement in operating expenses, with a year-over-year reduction of NIS 59 million in expenses.

In yes, we continued the positive trend of stabilizing profitability metrics and positive cash flow since the beginning of the year. At the end of the quarter, we reached one hundred thousand customers on IP that constitute approximately 20% of all subscribers in the company. At Pelephone, we had a significant and historic quarter with the awarding of the 5G frequencies, and we were the first to launch and operate the commercial network, along with completing the deployment of the sites in accordance with the outline of the Ministry of Communications. At Bezeq International, we are working through the accounting situation along with independent outside experts.

Clearly the subsidiary companies are showing significant results. Moving to Slide 28 - I'd like to remind everyone that all of this started in early 2019 when we took on the challenge and merged 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, as stated on Slide 30, are to improve efficiency and operational performance through one unified management team, continue streamlining in corporate headquarters and offer joint bundled service packages.

Turning to Slides 32 through 35, 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 21%. Revenues went down 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 EBITDA 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.

Moving to Slide 35 – we have identified areas for additional saving opportunities in real estate, set-top boxes, switching to one centralized CRM system and joint procurement.

Looking toward the future, 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 Slides 38 to 40 – For Pelephone, revenues and profitability decreased in the third quarter and the nine month period primarily due to the reduction in mobile roaming revenues. We continued to grow our postpaid subscriber base during the quarter and during the first nine months of the year. Upon winning the government's 5G tender auction, we are excited to launch 5G services with record speed for our customers, 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 41 to 43 – For yes, revenues showed moderate declines in the third quarter and nine month period. Adjusted EBITDA grew in the third quarter compared to the previous quarter. Subscribers grew by over 1,000 since the beginning of the year due to increased demand from yes+ and STINGTV.

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, 20% 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 Slides 44 to 46 – Let me point out that Bezeq International's comparative numbers include the restatement for the previous 6 quarters. Third quarter 2020 revenues and adjusted EBITDA showed moderate declines year over year. We are a leader in business solutions and the pandemic led to further increases in corporate demand for larger bandwidth based on our Internet infrastructure.

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. Just touching on the guidance for year-end, adjusted EBITDA, does that imply lower 4Q, considering the level you're at now?

Dudu Mizrahi (CEO, Bezeq Fixed-Line): Yali, maybe you can answer?

Yali Rothenberg (Outgoing CFO, Bezeq Group): Yeah, I'm waiting for the cue because I can't see you guys. In the first half of the year we've had a lot of expenses we've saved due to COVID-19 which we do not anticipate to save in the fourth quarter. That's one thing. And the second thing is that we've had revenues coming in above our expectations, mainly from telephony and broadband, and we think that this curve will somewhat straighten in the fourth quarter. That's why you can see that there's a difference between the first half and the second half of 2020, in the guidance.

Chris Reimer (Barclays): Okay. And can you give some color around the potential change in wholesale fees?

Yali Rothenberg (Outgoing CFO, Bezeq Group): This is for Dudu to take.

Dudu Mizrahi (CEO, Bezeq Fixed-Line): As you know, there is an annual formula which regulates the wholesale tariff, mainly the consumption, what they call the GBs. GBs of bandwidth that are transferred on our network and that formula is basically dividing the overall cost on the network with the overall consumption and there's an annual update of this tariff. Due to very high consumption over the last year, the effect on the tariff is substantial so while consumption is increasing significantly, the tariff drops significantly. As a result, we expect a significantly lower price for consumption over the next year. There's another element of payment based on subscribers connected which the ministry wants to change the methodology in which they calculate the price and that will also have a negative effect on the overall prices. Overall, we expect significantly lower prices for wholesale next year. Having said that, the overall revenue effect could be much lower - that depends on the amount of bandwidth usage next year. If usage will grow dramatically then the overall effect on revenues could be very low or even positive, so we are only talking about the price that drops every year during the last few years since we have had a wholesale regime in Israel. Even in 2020,

we had a substantial decrease in the tariff but overall revenues grew, mainly because the consumption grew much higher than the decrease in the tariff. So in order to predict what will happen to revenues, it really depends on the amount of traffic and amount of subscribers in the network over the next 12 months.

Chris Reimer (Barclays): Okay. And just relating to the issues that have come up with Bezeq International. Is that something could have occurred in other divisions, are you auditing those as well?

Yali Rothenberg (Outgoing CFO, Bezeq Group): We look at this incident very severely. We have taken many steps that even potentially it couldn't happen in other divisions. In this specific type of business within Bezeq International there's an occurrence, as part of the business, of deferred expenses. Some of these expenses, this is what we think now and also pending more investigation, were not inputted in the right way into the P&L. We are not aware, obviously, of anything else like this and right now we don't think that this thing could occur in any other place because of the unique business orientation of this unit within Bezeq International.

Chris Reimer (Barclays): I see. Okay, thank you very much, that's it for me.

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

Ondrej Cabejsek (UBS): Hi. Thank you for the presentation. I had a short follow up on the guidance question. So we know that you've had some benefits and also some opposite effects from COVID. Would you say that the, you know, the 2020 guidance upgrade, was it primarily due to COVID or was it more of the underlying business performing better than you had expected, and basically what I'm after is, does the 2020 guidance upgrade have any carry over into 2021, i.e. should there be a compounding effect from your performance or do you think that's a one off from COVID. That's my first question please. And then I wanted to ask about the fiber monetization. So you now report that you've started a pilot in several cities, you're now expecting or you're giving an explicit target for one million homes supplied with fiber by the end of 2021. We have seen more sort of parliamentary positive action this weekend, do you have confidence that you can start monetizing fiber in 1Q '21 is my question. Thank you.

Yali Rothenberg (Outgoing CFO, Bezeq Group): Okay, I'll take the first one. Dudu will take the second question. Hi, Ondrej, how are you?

Ondrej Cabejsek (UBS): Hello, I'm good thank you. How are you?

Yali Rothenberg (Outgoing CFO, Bezeq Group): I'm okay, and getting better. So

there will be some effects of 2020 into 2021 because part of this is COVID mainly as I suggested telephony, but part of it is not COVID. We think that a change in the retail ARPU within Bezeq and the amount of sales and growth in the retail is not from COVID although it's backed up by the current environment, as everybody needs more and better internet and better service and so on. So on the expense side, we don't anticipate to see anything, unless there's going to be another some kind of closure and people will be left at home and then we'll see some more savings on the expense side. On the revenue side, we will see some spill effect into 2021 of COVID and some of it is underlying, mainly in the broadband business within Bezeq Fixed Line. We also saw positive effects, versus what we thought in the beginning, on the other companies, mainly on yes. We saw that yes has done better than we thought initially within the budget, this is also partly due to COVID and also partly that the company is responding to the changes within the market and, improving sales and so on. So this is why we thought about this and decided to change the outlook.

Dudu Mizrahi (CEO, Bezeq Fixed-Line): Regarding the fiber question, as you know fiber optic investments are usually, very long term returns. But our approach to the fiber project is a very, very aggressive approach. The targets we set for ourselves are to reach 40% of Israeli households within one year, I don't think there is a precedent to that anywhere else in the world. So the same way we're going to approach the economics of the project and our expectation is to see very, very quick returns on that project. Whether we succeed in our plans or not is yet to be seen but I think we are feeling very confident in our ability to execute and to deliver and we expect very very fast returns on those investments.

Ondrej Cabejsek (UBS): Thank you. And if I may, one follow up. Yali, you mentioned yes. Two short questions, they're connected, but you've been sort of deregulated recently in terms of being able to bundle yes and being able to make some of the production exclusive. Do you foresee that as changing your overall TV strategy and does that have any implications for where you would see the revenue, revenue trends, rather, bottom out. Thank you.

Ran Guron (CEO, Pelephone, Bezeq International, yes): Okay, this is Ran, thank you. We are for the approval from the anti-trust authority for the removal of this restriction so we would be able to bundle or create a triple play between all the subsidiaries. This is long term - I mean, this wouldn't create an effect on the short term but, as we all know, if customers will be part of a triple play offer, in the long term we can see a reduction in churn and the strengthening of customer loyalty. This will also eliminate the disadvantage that we have towards other players that are allowed to offer a triple play and if I can mention, the removal of these restrictions will be useful for Bezeq fixed line as well in the future once other restrictions that we have will be

removed. So this is more of a strategic long term move for us.

Ondrej Cabejsek (UBS): And so would you say that it is short term, more of an ... to be kind of more aggressive in terms of bundling prices or what would you sort of do with this deregulation if it happened short term, strategically?

Ran Guron (CEO, Pelephone, Bezeq International, yes): Well, this can help us somehow in the short term but this is mainly long term and we'll have to see how we're going to use it so I'm not going to elaborate more than that.

Ondrej Cabejsek (UBS): Alright. Thank you very much, everyone.

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

Jerry Dellis (Jefferies): Yes, good afternoon. I've got three questions, please. Firstly, in relation to your fiber build target of 1 million homes by the end of 2021, given the geographical locations that you're intending to deploy in, is there a market share win back opportunity either in internet infrastructure or in the ISP market that's worth considering as that network is deployed. Second question is, is related to the mobile market. Obviously quite a lot of happening recently, the early deployment of 5G, the early integration of Cellcom and Golan and some news ... recently. What's the organic path towards creating more price discipline in the mobile market, please? And then my final question is related to the volume adjustment to the wholesale rate as previously discussed. At what stage do you think you'll be in a position to quantify the impact that that might have at the company level and the group level on 2021? Thank you.

Dudu Mizrahi (CEO, Bezeq Fixed-Line): I'll take the first question regarding the fiber. Of course there's a win back opportunity here because, as you know, our competitors are already deployed, roughly I would say 25% of the country is deployed, and of course part of our deployment is reaching areas and buildings that have already been deployed by our competitors and of course there's a win back opportunity here both on the network side and of course on the ISP part. So I think there's a big opportunity for us here. Regarding your third question, we have our assumption regarding the price. It still will go under some kind of a hearing process and it might be changed because of things we have to say on that, on the way it was calculated, but the part that we don't know yet is of course the amount of traffic that will run through the network and that eventually will determine the revenues, the revenue stream from wholesale. We have of course our own assumption but we are not disclosing those elements currently. I can only say that if looking back, the price decline in 2019 was quite dramatic also. I think if I recall correctly, it declined by 30% but the overall revenues grew due to a sharp increase in usage. So, as I said earlier, the final result really depends on the

amount of traffic on the network we'll see moving forward.

Ran Guron (CEO, Pelephone, Bezeq International, yes): This is Ran. I'm going to take the mobile question. But I'm not going to address the prices directly. All I can say is that we are kind of optimistic because we see mergers in the market. Golan is part of Cellcom now and this is a trend going worldwide and in this country as well. At the same time, we see that we are starting to charge some premium from customers using our 5G network. These are optimistic signs but this remains a highly competitive market with many players, so we cannot say which way it will go but there are some positive signs. We'll look closer into the signs as 2021 goes forward.

Jerry Dellis (Jefferies): Thank you very much. Could I just ask a follow up please, on the, related to the fiber deployment. Could you just remind me please whether there is an established process for switching off the copper network as the fiber is deployed and if so, what that might look like please.

Dudu Mizrahi (CEO, Bezeq Fixed-Line): Could you explain the question?

Jerry Dellis (Jefferies): So as you deploy fiber to 1 million premises by the end of 2021 and then go beyond that...Is there formalized process for the milestones after which you are able to actually switch off copper and the notice period that you might have to extend to wholesale customers before that can happen.

Dudu Mizrahi (CEO, Bezeq Fixed-Line): No. Not currently. Currently it's an overlay, both networks will exist at the same time, we'll still provide our telephony services through the old switch and copper network and that will be the case for the coming years. The DSL network will still be with us, I think, for many years forward. Both networks will exist simultaneously.

Jerry Dellis (Jefferies): 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. We have a follow up question from Ondrej Cabejsek. Please go ahead.

Ondrej Cabejsek (UBS): Yes, one follow up question from me please. Now that you are deploying fiber already and you have set out the target. I know you sort of not wanted to answer this question in the previous calls but is there any comment at this stage that you can make on fiber CapEx at least for what you're seeing now and for the next year, given that you do have a target already for the next 12 months? Thank you.

Dudu Mizrahi (CEO, Bezeq Fixed-Line): Of course we haven't given guidance on next years numbers yet, and we've said before that deploying fiber in such an aggressive manner will have an effect on our CapEx. I don't know really how to define it, it's not that substantial but of course, given the amount of households we're going to cover next year there will be an increase in CapEx mainly next year and I think later on the pace will be a bit slower but we haven't given guidance on those numbers and I'm not sure that we'll give them.

Yali Rothenberg (Outgoing CFO, Bezeq Group): But if I may add, in reference to the group CapEx, we don't think it's going to be a massive number, percentage wise. It's going to be maybe between 10% and 15% or so. We don't think it's going to be a big hike in the numbers relative to the group right now.

Ondrej Cabejsek (UBS): Thank you. And one question related to your overall free cash flow, is there much that you can do over the short term in terms of managing your working capital so that for example before the monetization of fiber kicks in and in a couple of quarters you can sort of soften the pressure that you may have from any incremental cutbacks from fiber via a working capital management?

Yali Rothenberg (Outgoing CFO, Bezeq Group): The free cash flow is impacted by the cash flow from the operations and the CapEx. And the net CapEx is impacted by the sales of property. One of the impacts of COVID-19 is that we have postponed some of the sales because we wanted the crisis to subside a little bit and the market to come back to itself. We see that the market is beginning to come back to itself so I think as part of our real estate sales plan we could see some sales coming in maybe in the first half of '21, maybe even before. And that would tend to mitigate the effects of the increase in CapEx that will be incurred by the fiber rollout.

Ondrej Cabejsek (UBS): Thank you, Yali. And is there a number that you have in terms of the sort of portfolio that you are confident you can offload in the next say one or two years?

Yali Rothenberg (Outgoing CFO, Bezeq Group): We haven't really published a number but in our directors' report there is a cash flow forecast. After the call you should talk to the IR guys or Naftali and they'll give you some more insight about this.

Ondrej Cabejsek (UBS): Thank you, Yali.

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 (Outgoing 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. Thank you.

Operator: Thank you. This concludes Bezeq's Third 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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