

Telefônica

vivo

Results **3Q18**

Investor Relations
Telefônica Brasil S.A.

October, 2018

Disclaimer



This presentation may contain forward-looking statements concerning future prospects and objectives regarding growth of the subscriber base, a breakdown of the various services to be offered and their respective results



Our actual results may differ materially from those contained in such forward-looking statements, due to a variety of factors, including Brazilian political and economic factors, the development of competitive technologies, access to the capital required to achieve those results, and the emergence of strong competition in the markets in which we operate



The exclusive purpose of such statements is to indicate how we intend to expand our business and they should therefore not be regarded as guarantees of future performance



For a better understanding, we are presenting *pro forma* numbers combining Telefônica Brasil and GVT results for all financial and operational indicators for every period as of January, 2015, as well as *pro forma* numbers for 2018 disconsidering impacts from IFRS 15¹

3Q18 HIGHLIGHTS

**Unique assets
with
irreplicable
position in key
segments**

Postpaid Net Adds

+980k

53.0% of Accesses in Postpaid

FTTH Net Adds

+167k

+46.0% YoY

IPTV Net Adds

+50k

+74.9% YoY

**Transforming
revenue mix
with
expanding
margins**

Growing Businesses¹

69%

of Revs in 9M18 (+9.8% YoY)

Recurring Operating Costs

-4.2%

YoY in 3Q18

Recurring EBITDA Margin

35.9%

EBITDA +5.3% YoY in 3Q18

**Unmatchable
profitability
and cash
generation
boosting
remuneration**

Net Income

R\$ 7.4 bn

+140.7% in 9M18

Free Cash Flow

R\$ 4.8 bn

+6.4% in 9M18

Shareholder Remuneration

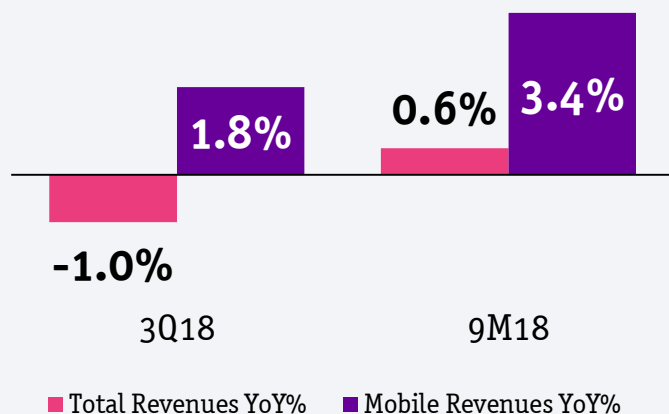
R\$ 3.2 bn

Declared so far in 2018

Note: all financial numbers of this presentation for the year 2018 are *pro forma*, disconsidering the effects IFRS 15 had on our statements. Please refer to the last slide of this presentation to gather the reported numbers considering the effects from IFRS 15.

Strong evolution of growing revenues and remarkable cost efficiency leading to **solid cash generation and record level of net income**

Revenues

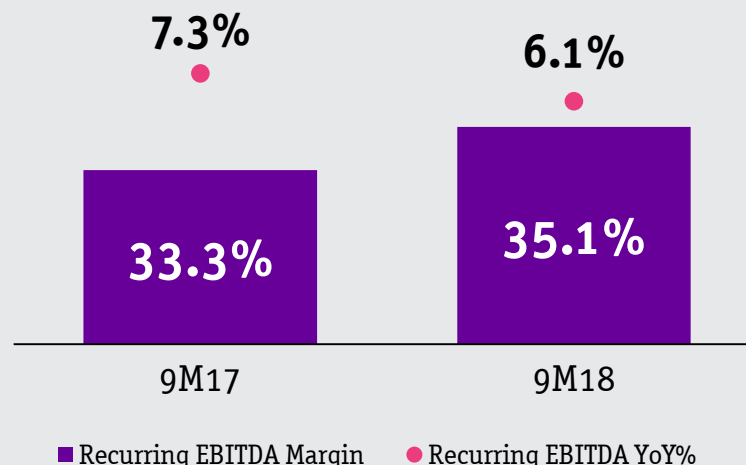


Despite presenting YoY drop in 3Q18, **total revenues continued to expand in the year**

Expansion is led by the **growing businesses**¹ performance, which reached **10% YoY in 9M18**

Leader in postpaid share of net adds in 2018 and **strong levels of net adds** in FTTH and IPTV

Recurring EBITDA²

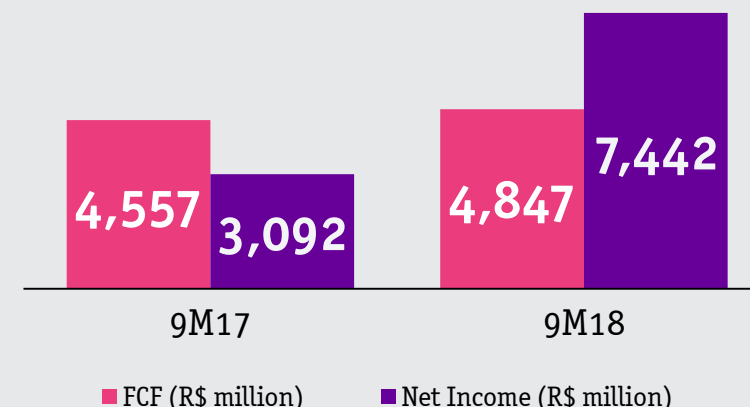


Record level of annual cost reduction in 3Q18 (-4.2% YoY) driven by **digitalization**

Solid and consistent EBITDA expansion, growing +5.3% YoY in 3Q18

Highest Recurring EBITDA Margin of recent years (35.9% in 3Q18, +2.1 p.p. YoY)

FCF³ and Reported Net Income



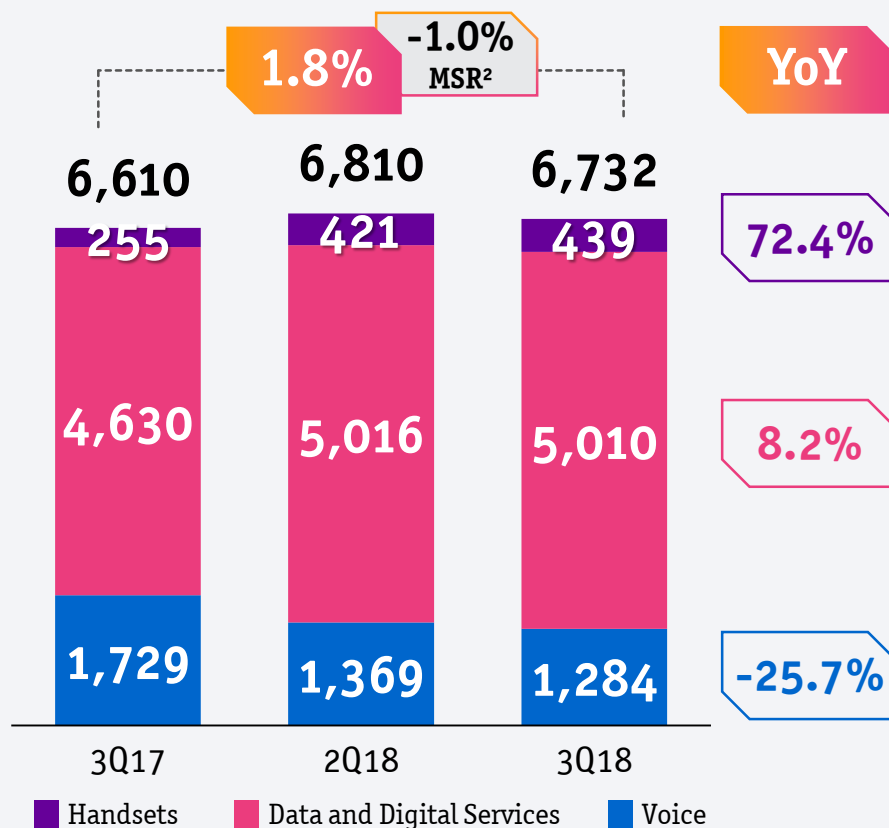
R\$6.1 billion Capex in 9M18 leading to **18.8% of Capex/Revenues**

Strong Free Cash Flow generation, reaching R\$4.8 billion in 9M18 (+6.4% YoY)

Record Reported Net Income, growing 140.7% in 9M18, on the back of extraordinary judicial gains in 2Q and 3Q18, **reaching R\$7.4 billion**

Solid performance of key lines offsetting deterioration in prepaid and leading mobile revenues to expand in the quarter

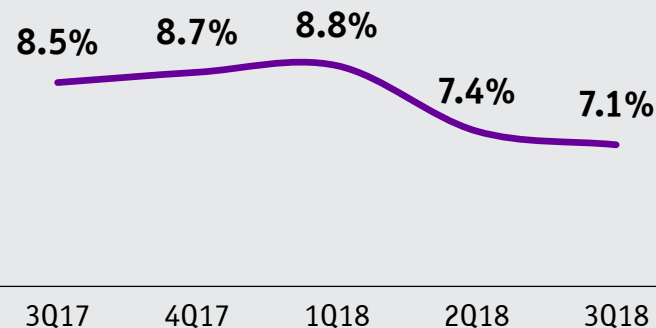
Mobile Revenues¹ R\$ Million



Growing sale of handsets with margin leading handset revenues to represent **6.5% of mobile revenues** (+2.7 p.p. YoY)

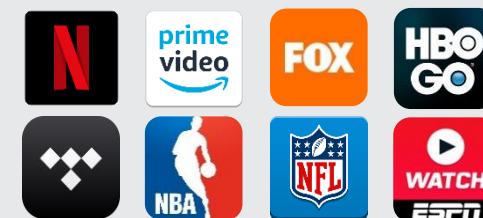
Sustaining solid growth in postpaid

Postpaid Revenue Growth | YoY%



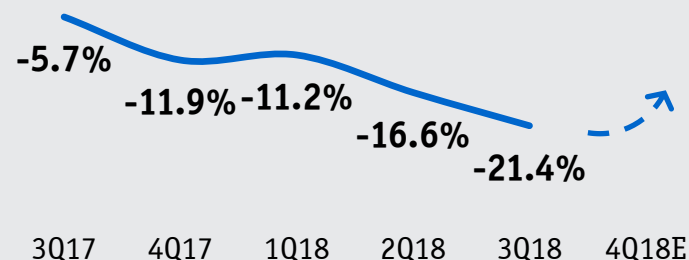
Price increases in September and **strong net adds** driving growth

Partnerships with relevant OTT providers enhancing attractiveness of offers



Prepaid affected by macro environment and competition, with new actions expected to produce results from 4Q18 on

Prepaid Revenue Growth | YoY%



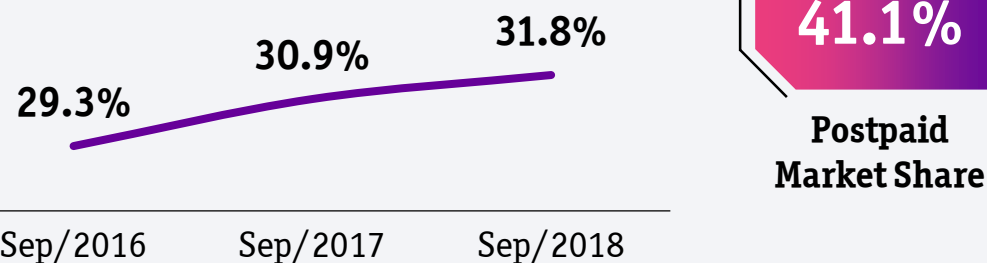
Repositioning of offers to include more benefits for customers and launch of Giga Chip with **positive early results**



Reducing churn and strong upsell of customers leading to **unrivalled operating performance in postpaid**

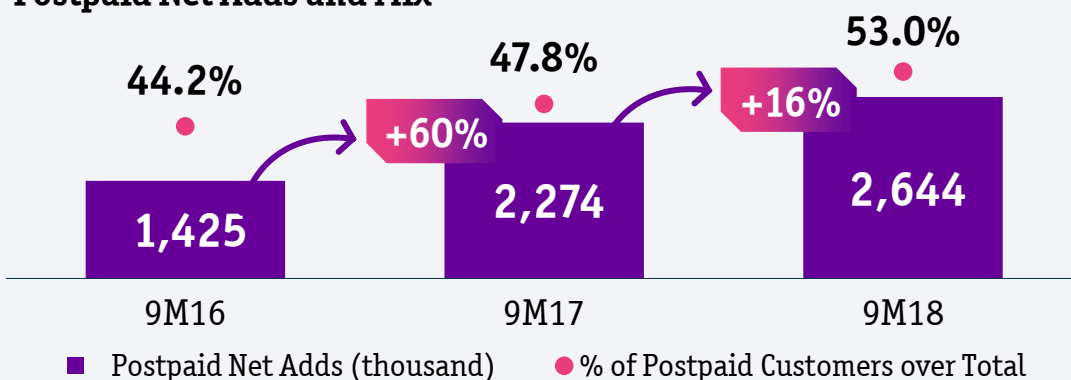
Sustaining undisputed market positioning...

Mobile Market Share



...driven by leading performance in postpaid

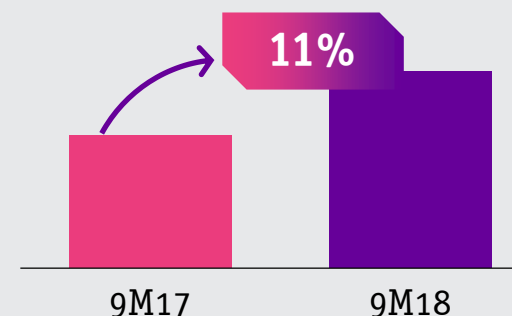
Postpaid Net Adds and Mix



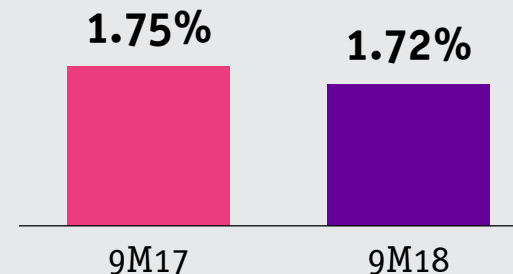
Leader in postpaid net adds every month since March/18

Migration towards postpaid remains accelerated, with churn totally under control

Net Migration of Prepaid to Hybrid

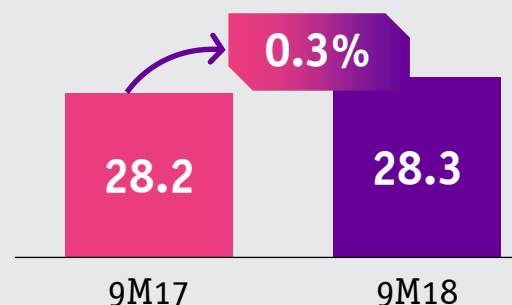


Postpaid Churn (ex-M2M)

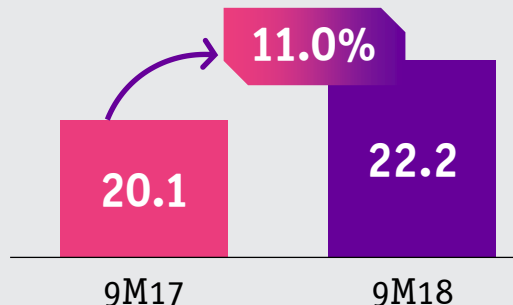


Data contributing to sustain sector-leading ARPU

Total ARPU | R\$ per month

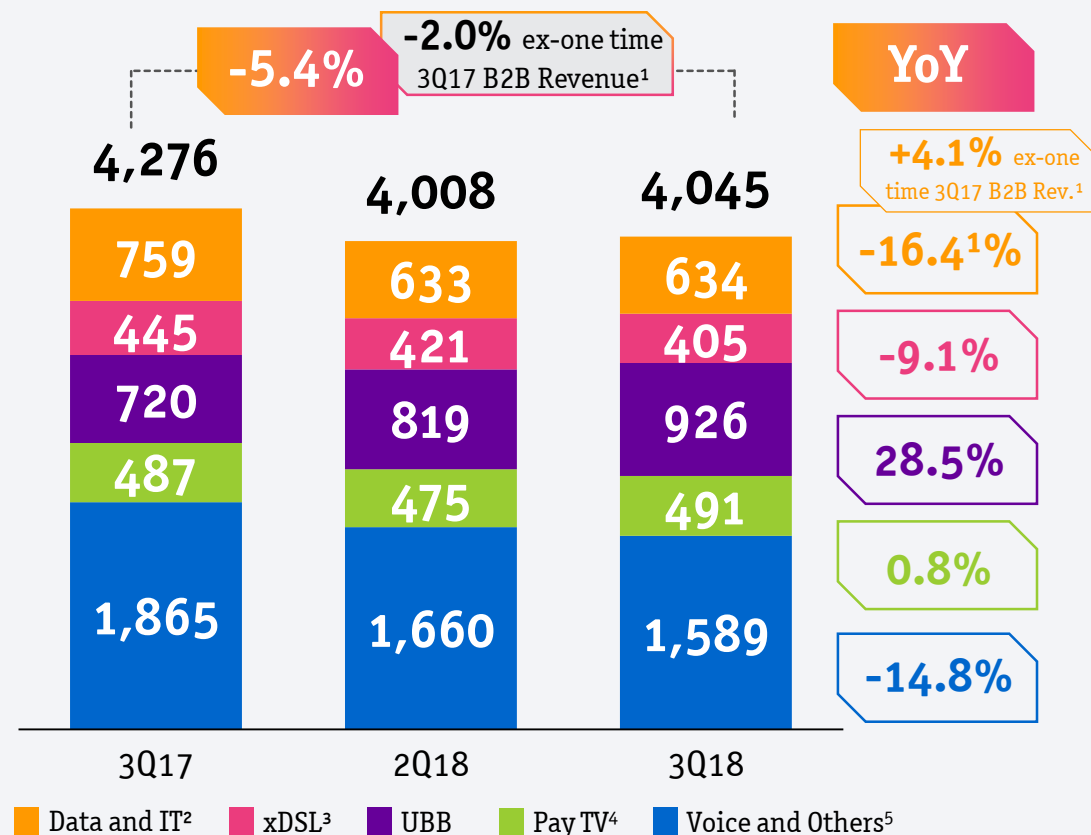


Data ARPU | R\$ per month



Underlying trends improving in fixed revenues with strong results coming from fiber

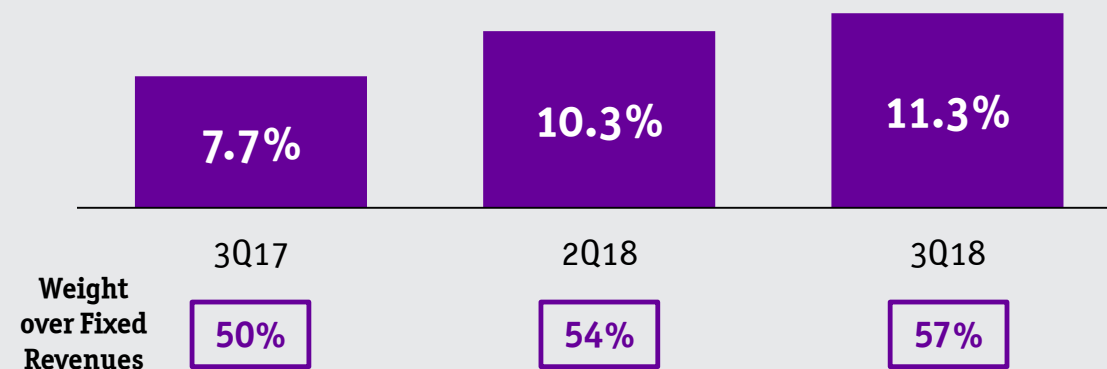
Fixed Revenues R\$ Million



Non-voice revenues already represent **64.5% of Fixed Revenues** (+4.3 p.p. YoY)

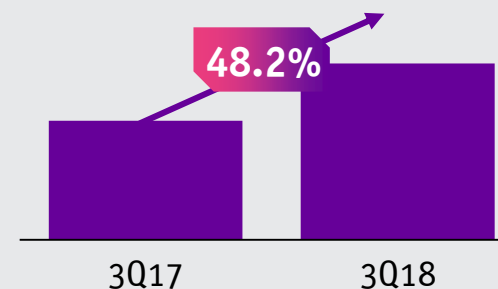
Fixed Revenues¹ ex-voice and DTH growing double-digit once again

Fixed Revenues ex-Voice and DTH | YoY%

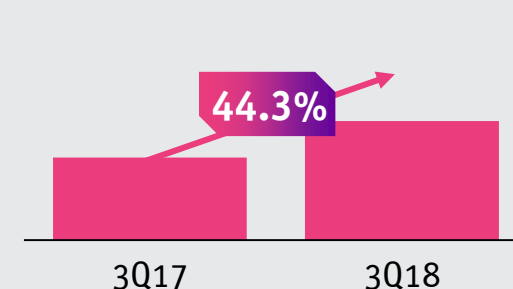


Revenues from FTTH-related products continue to present outstanding results

FTTH Revenue | YoY%



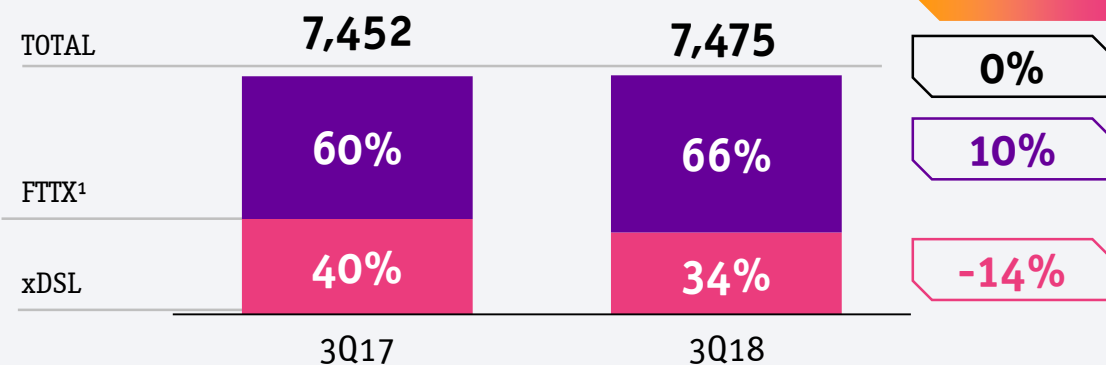
IPTV Revenue | YoY%



Transformation of customer mix due to **strong commercial performance of FTTH and IPTV** leading to consistent ARPU increase

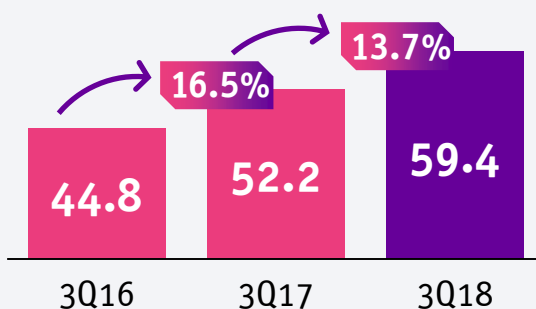
Broadband Accesses and ARPU

BB Accesses | Thousand

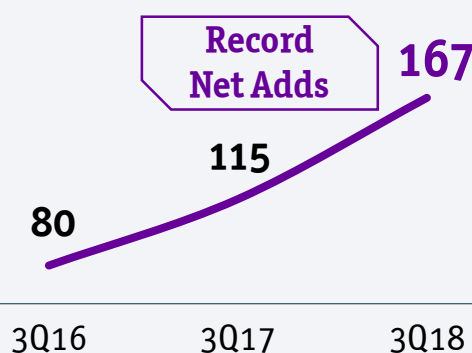


FTTH access growth of **+45% YoY in 3Q18**

BB ARPU
R\$ per month

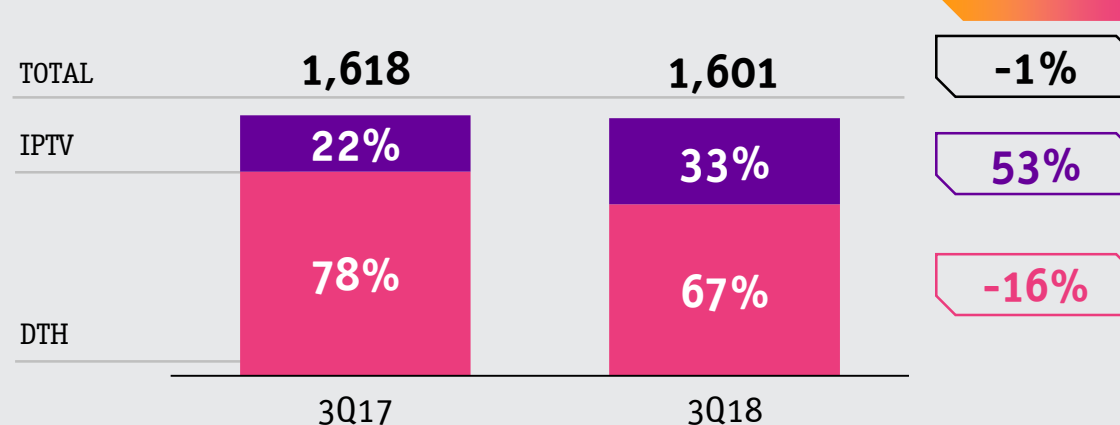


FTTH Accesses
Thousand Net Adds

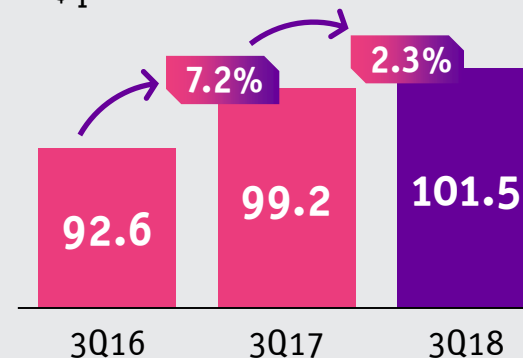


Pay TV Accesses and ARPU

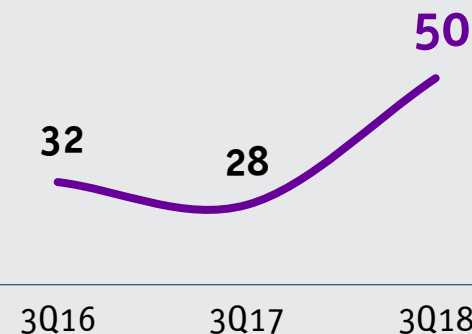
Pay TV Accesses | Thousand



TV ARPU
R\$ per month



IPTV Accesses
Thousand Net Adds



Remarkable UBB opportunity in Brazil proven by excellent set of results captured in FTTH cities launched in 2017 and 2018

Outstanding results in the 16 FTTH cities launched in 2017, confirming unique UBB opportunity in Brazil...

KPIs from cities launched in 2017

Average

Best Case

BB ARPU
(R\$)

69

76

2P ARPU above R\$100 and 3P ARPU above R\$149

BB Share

36%

81%

UBB Share

73%

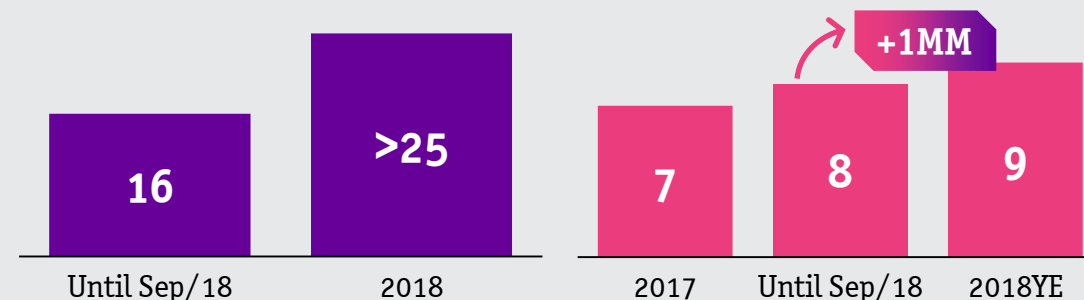
100%

Take-up over HPs in some cities launched in 2017 already reaching long-term target (>30%), with an average of **42% of penetration over installed capacity**

...and the cities launched in 2018 are performing even better as we optimize deployment & operations

New FTTH Cities

FTTH HPs | Million



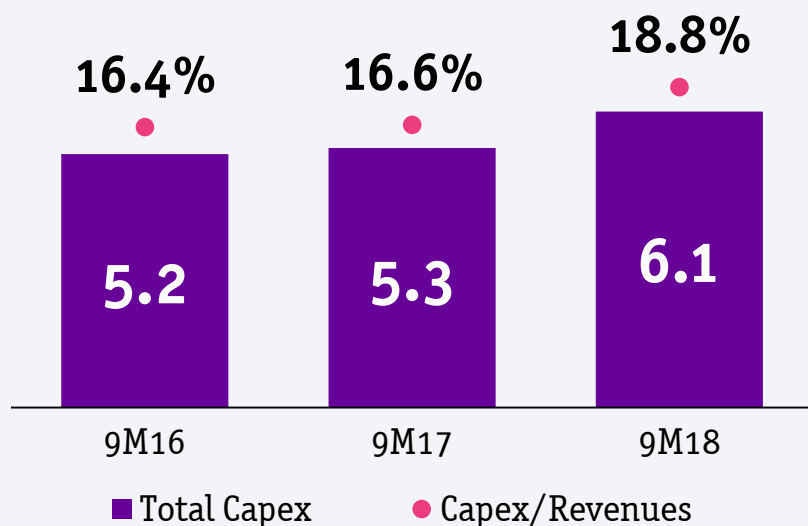
Faster deployment of FTTH, which will allow us to build **+1MM HPs** until the end of the year, **with enhanced performance of salesforce**, leading to strong results in cities launched this year

As a result, take-up over HPs **beating the internal expectations in almost every city**

Average BB ARPU of cities launched in 2018 reaching R\$72, 5% higher than average ARPU of cities launched in 2017 and 21% higher than average BB ARPU

Investments focused on growth-related technologies driving **expressive expansion of Fiber** and **enhancement of 4G quality**

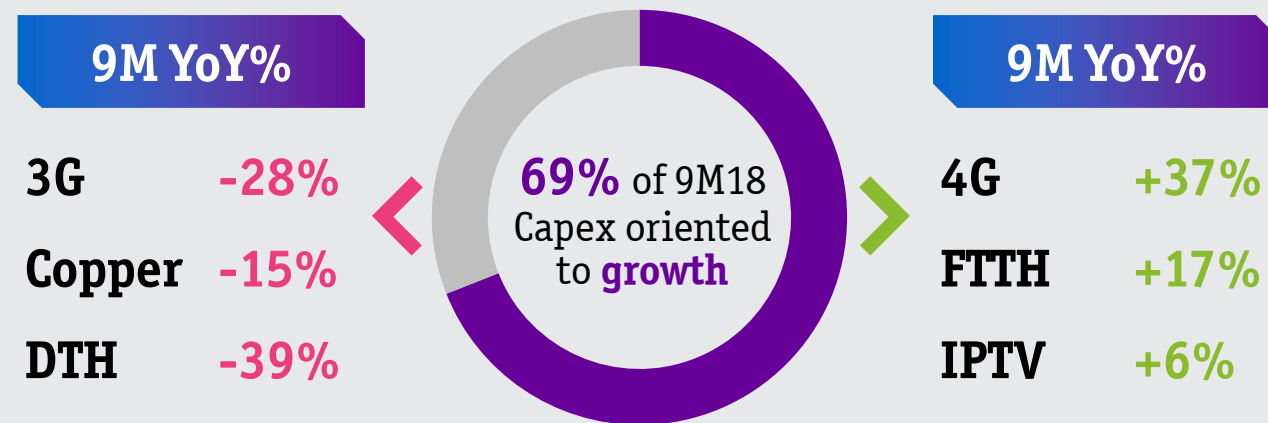
Capex
R\$ Billion



R\$2.4bn 3Q18 Capex

Accelerated Capex execution **in line with expectations and possibly lower than estimated** due to smart allocation and efficiencies

Investments largely focused on growth, higher-return technologies, reducing expenditures with legacy services...



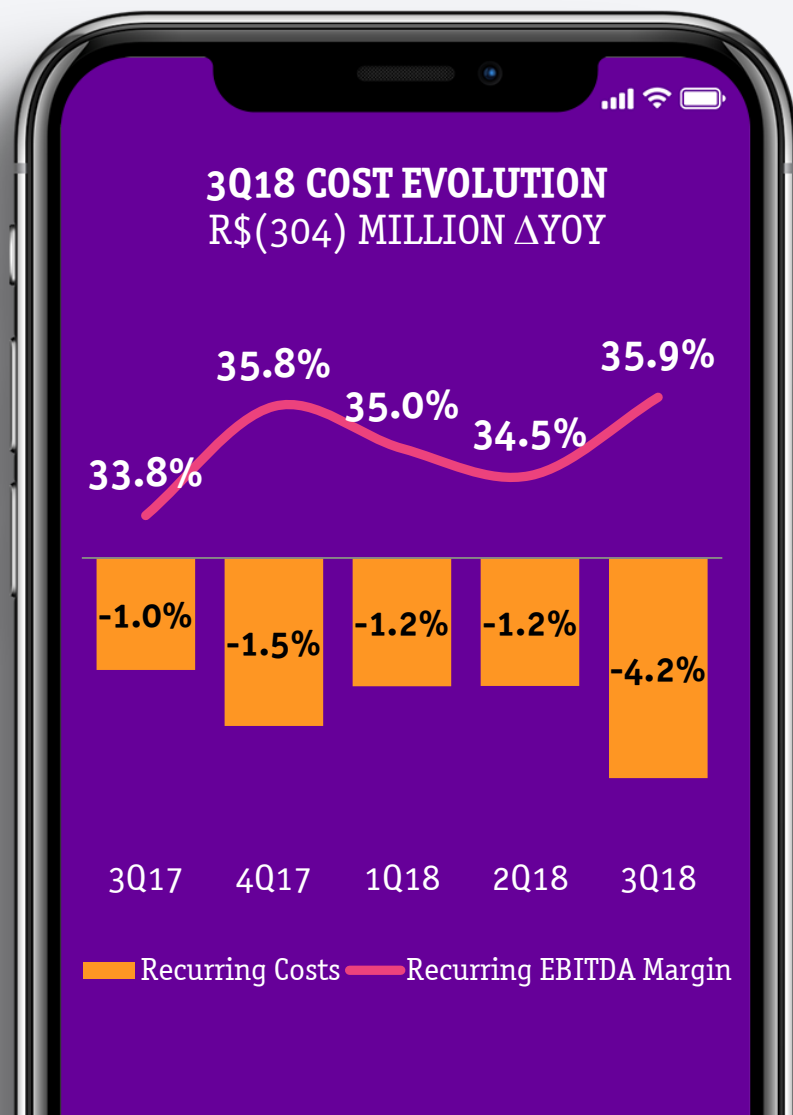
...leading to strong expansion of **FTTH + IPTV footprint** and **4G quality**

_Fiber: presence in **230 cities** (104 with **FTTH**), with **IPTV** already present in **98 cities**

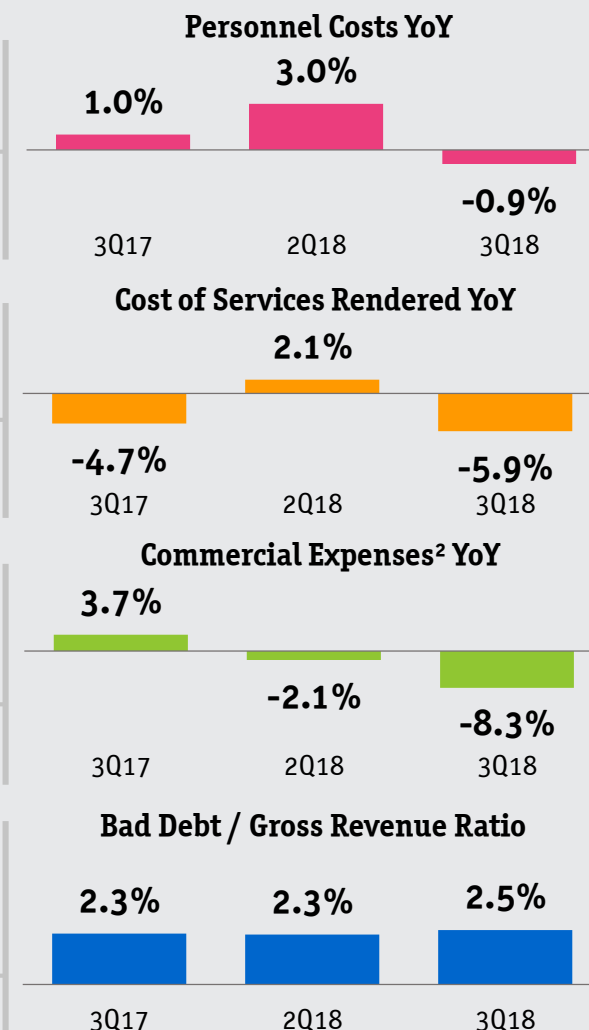
_4G: coverage of **87%** of population (+7 p.p. YoY), with **4G+** already reaching **850 cities** (+736 in 2018)

_38% YoY increase in the number of **fibered sites** in 3Q18

Reducing recurring costs¹ YoY for the 11th consecutive quarter led by digitalization initiatives



MAIN HIGHLIGHTS



13.6% of total Opex
Restructuring in 2Q18 already leading to reduction in costs on a yearly basis

39.6% of total Opex
 Lower costs with **regulatory taxes, interconnection and energy costs**, besides higher costs in 3Q17 related to large B2B contract

26.4% of total Opex
Digitalization efforts reducing drastically expenses with **call centers, back office, billing and posting**
 Reducing **advertising related expenses**

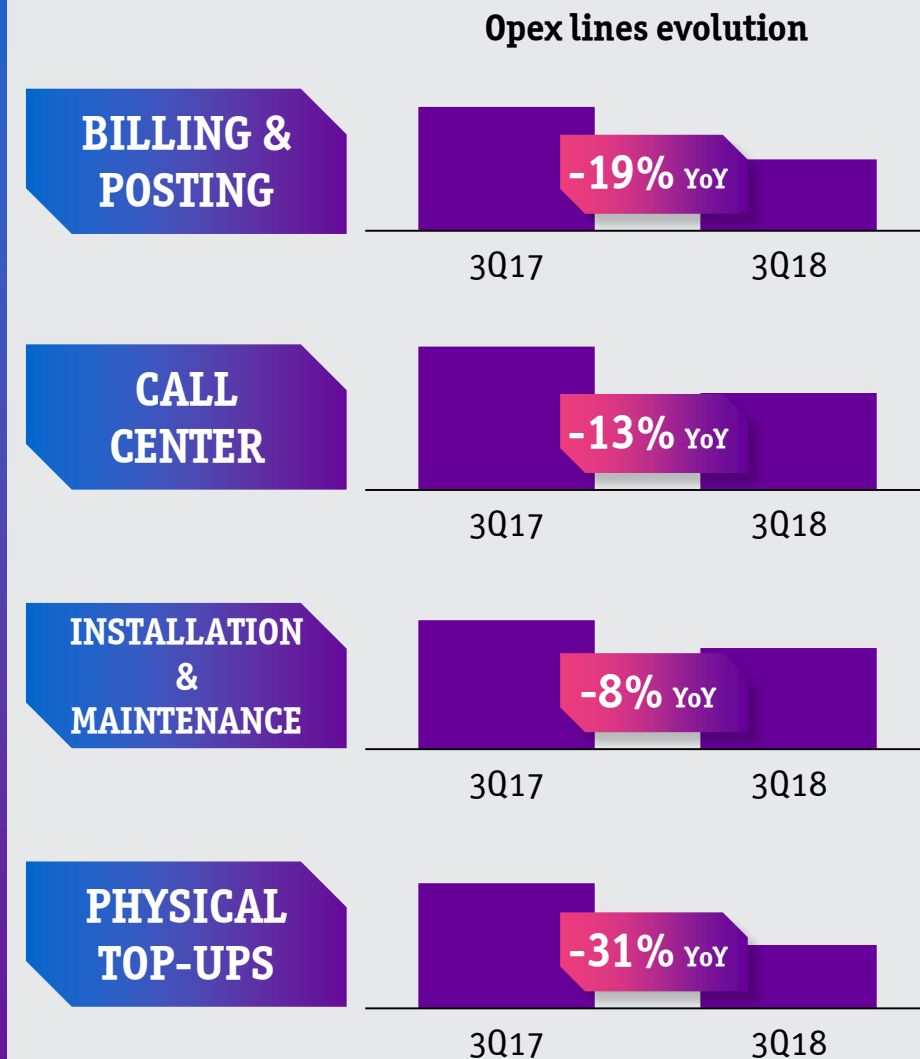
5.9% of total Opex
 Credit and collection actions leading to **controlled evolution of bad debt/revenues**

1- Excludes the following non-recurring effects: 2Q18: positive effect of R\$1,830.2M mainly due to the final judgment in the Superior Court of Justice, in favor of the Company, recognizing the right to deduct the ICMS from the basis of calculation of PIS/COFINS contributions, related to TELES P operations from 2003 to 2014; expense of R\$92.0M due to the adoption of a risk assessment model to calculate labor contingencies; expense of R\$170.6M due to the write-off of assets related to judicial deposits; expense of R\$116.9M due to organizational restructuring.

(Cont'd) 3Q18: positive effect of R\$1,381.7M due to the final judgment in the Superior Court of Justice, in favor of the Company, recognizing the right to deduct the ICMS from the basis of calculation of PIS/COFINS contributions, related to Vivo operations from 2004 to 2013; expense of R\$487.1M related to extraordinary fiscal contingencies recorded in 3Q18. 2- Excluding provision for bad debt.

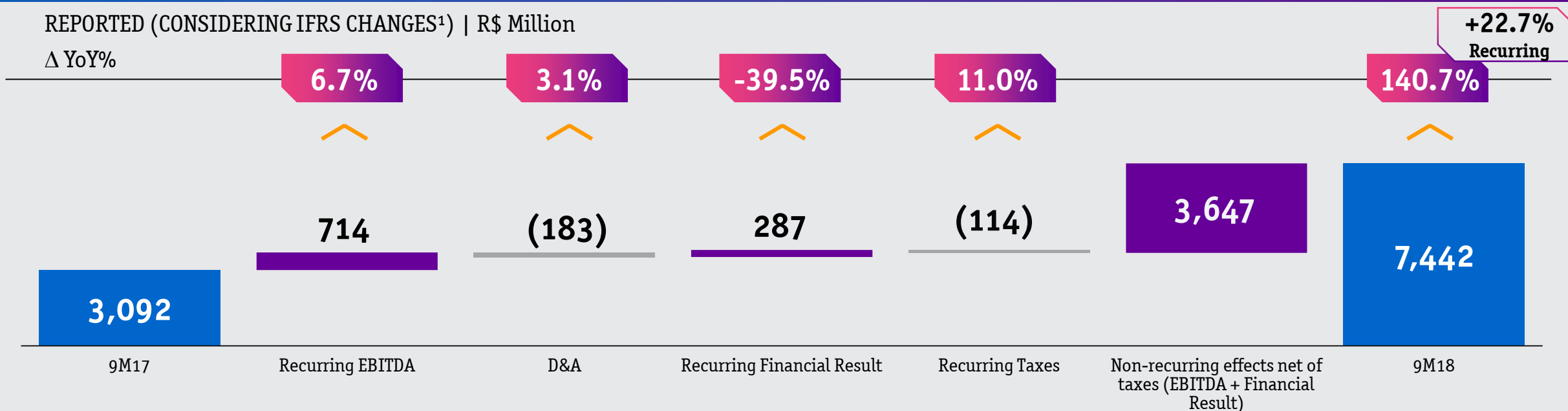
Large buckets of Opex dropping significantly YoY directly impacted by evolution of digitalization initiatives

Fronts	KPIs	3Q17	3Q18
Fostering sales and top-ups through digital channels	E2E Online Fixed B2C sales	← +15% YoY →	
	% of digital top-ups	19%	22%
Enhanced customer care experience	Unique users of Meu Vivo	← +46% YoY →	
	Call center calls	← -30% YoY →	
More efficient and friendly payments & collection	Penetration of e-billing	38%	53%
	Digital credit scoring	56%	63%
Robust IT and improved technical support	% PoS in Full Stack	-	100%
	% digital technical support	-	63%



Non-recurring effects registered in 2Q18 and 3Q18 leading to **record level of net income**

9M18 Net Income | R\$ Million and % YoY



MAIN HIGHLIGHTS

EBITDA

Increase related to **strong cost control due to evolution of digitalization initiatives and mobile revenue expansion**

NON-RECURRING EFFECT²

Positive impact of **R\$ 895 million in EBITDA** and **R\$ 746 million in Financial Result** from one-offs registered in 3Q18

RECURRING TAXES

Increase related to the **higher level of recurring net income recorded in the period**

In 3Q18, we registered a new tax asset of R\$ 2.4 bn related to contributions of PIS/COFINS over ICMS made by Vivo between 2004 and 2013

Impact from decisions for TELESP and Vivo on income statement and balance sheet

Record Net Income to be registered in 2018 to produce unique level of remuneration

R\$ Billion	2Q18: TELESP (2003-2014)	3Q18: Vivo (2004-2013)	Total
EBITDA	2.0	1.4	3.4
Financial Result	1.8	1.0	2.8
Tax Asset (Balance Sheet)	3.8	2.4	6.2

_ Impact on Income Statement in 2Q and 3Q18 generating a **relevant additional profit**

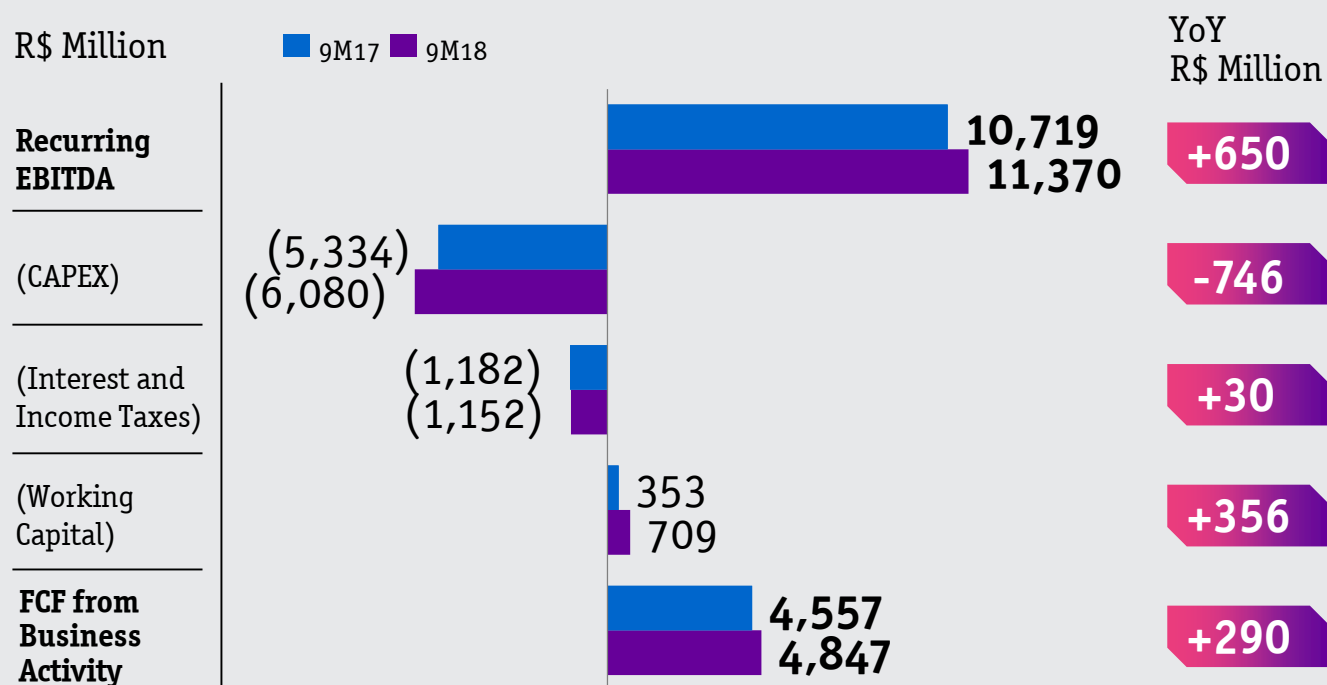
_ **Potential for unprecedented shareholder remuneration** from distributions based on 2018 net income

_ Other processes still waiting for final judgement **could generate extra gains in the future**

Tax assets to compensate payment of federal taxes during the next years generating an incremental source of cash while allowing for stronger shareholder remuneration

Free Cash Flow expanding 6.4% YoY in 9M18 even investing R\$0.7bn more in the period

Growing Free Cash Flow¹ generation on the back of solid EBITDA expansion and strict financial discipline



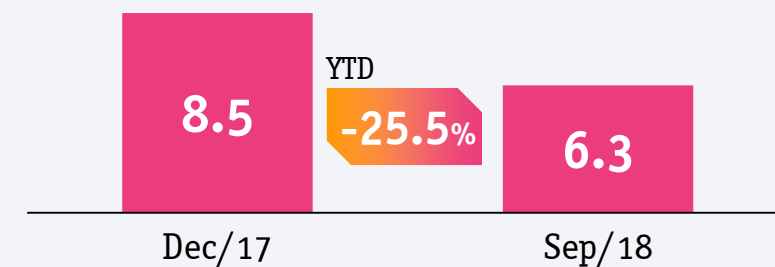
Shareholder remuneration in 2018

Payment of R\$4.6 bn in dividends/IOC already declared²:

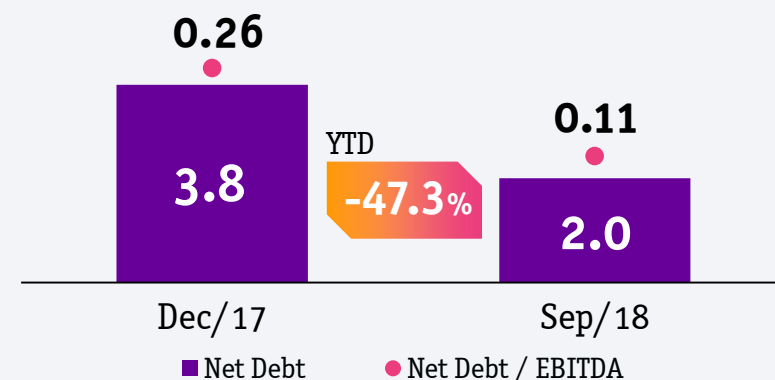
Payment Date	Gross Amount	R\$/share (PN ³)
Aug 21, 2018	R\$2.4 bn	R\$1.48
Dec 11, 2018	R\$2.2 bn	R\$1.34
Total	R\$4.6 bn	R\$2.82

Low level of indebtedness contributing to maintenance of healthy balance sheet

Gross Debt | R\$ Billion



Net Debt | R\$ Billion



In summary

Growing businesses revenues soaring YoY boosted by **strong operating momentum in key segments**



Record levels of cost reduction with evolution of digitalization leading to **highest EBITDA Margin of recent years**



Unmatchable cash and net income generation with potential to produce **unprecedented shareholder remuneration**



Effects of IFRS 15 on our 3Q18 results

R\$ million	Pro forma ¹		IFRS Adjustments	Reported ¹	
	3Q18 w/o IFRS	Δ% YoY		3Q18 w/ IFRS	Δ% YoY
Net Operating Revenue	10,777.2	-1.0%	-12.4	10,764.8	-1.1%
Net Service Revenue	10,338.4	-2.8%	-63.9	10,274.5	-3.4%
Net Mobile Service Revenue	6,293.1	-1.0%	-63.9	6,229.2	-2.0%
Net Fixed Revenue	4,045.3	-5.4%	0.0	4,045.3	-5.4%
Net Handset Revenue	438.9	72.4%	51.5	490.4	92.6%
Recurring Operating Costs	-6,905.3	-4.2%	26.5	-6,878.8	-4.6%
Personnel	-939.9	-0.9%	1.7	-938.2	-1.1%
Commercial Expenses	-2,226.8	-5.9%	24.8	-2,202.0	-7.0%
Recurring EBITDA	3,871.9	5.3%	14.1	3,886.0	5.7%
Recurring EBITDA Margin	35.9%	2.1 p.p.	0.2 p.p.	36.1%	2.3 p.p.
Net Income	3,168.0	159.1%	9.3	3,177.3	159.9%

IFRS 15: new accounting standard in force since January 2018, which requires **revenue to be recognized based on the contract with the customer, not necessarily aligned with billing**. For Vivo, revenue recognition of mobile offers with handset subsidy will change, as the **subsidy will now be distributed between services and handset**. In addition, certain costs to acquire a customer through a contract will now have to be capitalized if the amortization period is >12 months.

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