

Telefônica

vivo

Results **4Q18**

Investor Relations
Telefônica Brasil S.A.

February, 2019

.....

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

Strategic priorities for 2019

Focus on **revenue growth** through **outstanding performance in high-value services** while leveraging on potential macro improvement



Strong **EBITDA expansion** due to **efficient cost management** and evolution of **digitalization initiatives**



Sustain **solid cash generation** to continue to provide **unmatched shareholder remuneration**

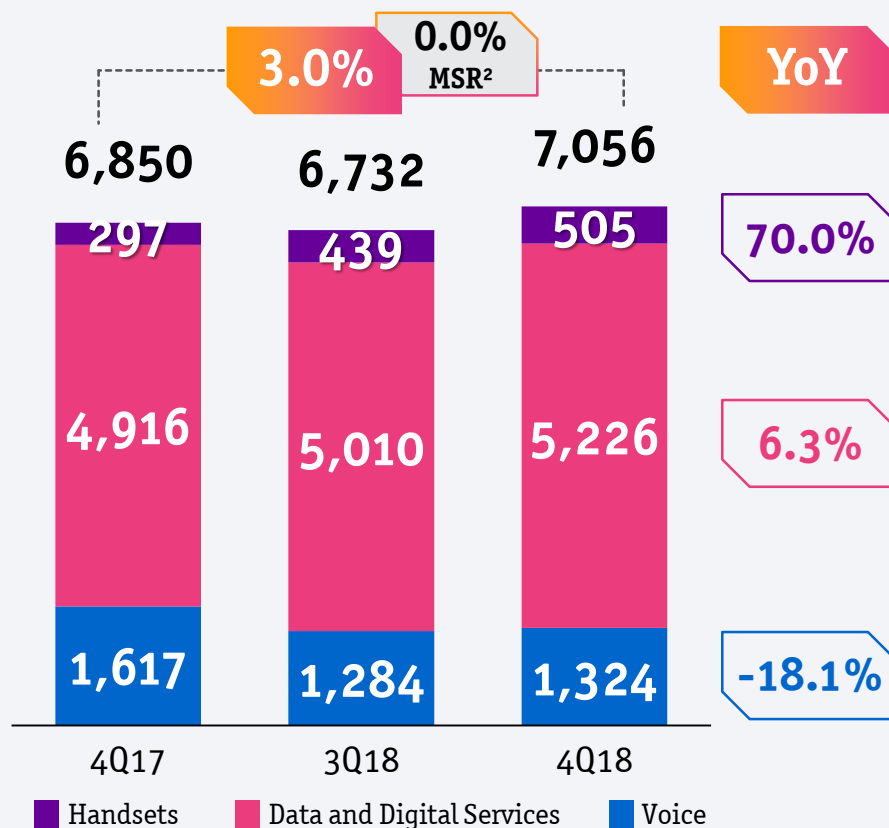


2018 HIGHLIGHTS

Unique assets with irreplicable position in key segments	Postpaid Net Adds +3.6m (+7.5% YoY) 55.2% of Accesses in Postpaid	FTHH Net Adds +604k +50.0% YoY	Footprint Expansion Acceleration +30 new FTHH cities 3,100 4G cities 1,000 4.5G cities
Transforming revenue mix with expanding margins	Growing Businesses¹ 70% of Revs in 2018 (+9.8% YoY)	Recurring Operating Costs -2.0% in 2018 Reduction for 3 years in a row	Recurring EBITDA Margin 35.6% 37.0% in 4Q18 (historical high)
Unmatched profitability and cash generation boosting remuneration	Net Income R\$ 8.9 bn +93.7% in 2018	Free Cash Flow R\$ 6.9 bn +20.6% in 2018	Shareholder Remuneration Proposed for 2018 R\$ 7.0 bn +52.3% YoY

Mobile revenues presenting solid expansion driven by the initial recovery of service revenues and strong handset sales

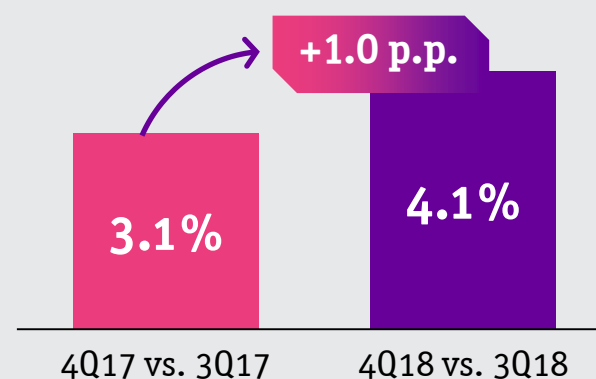
Mobile Revenues¹ R\$ Million



In 2018, **Mobile Revenues** grew **+3.3% YoY**, while **Mobile Service Revenues** expanded **+1.1% YoY**

Accelerated QoQ growth

Mobile Service Revenues Growth | QoQ%

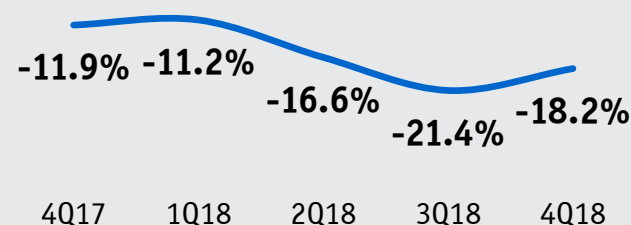


_Postpaid revenues growing **+5.3% YoY** in 4Q18

_Solid postpaid performance driven by **strong level of net adds in the year** and **price increases** during the 2H18

Prepaid showing initial signs of recovery with higher volume of gross adds during 4Q18

Prepaid Revenue Growth³ | YoY%



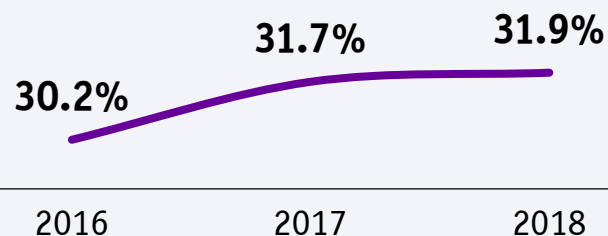
_New initiatives allowed us to improve the **value proposition** and **attractiveness of our portfolio**

_In QoQ terms, **prepaid revenues** grew **+2.6%** (vs. -1.4% in 4Q17)

Leadership in postpaid net adds and controlled churn leading to incomparable customer base profile

Expanding mobile market leadership...

Mobile Market Share

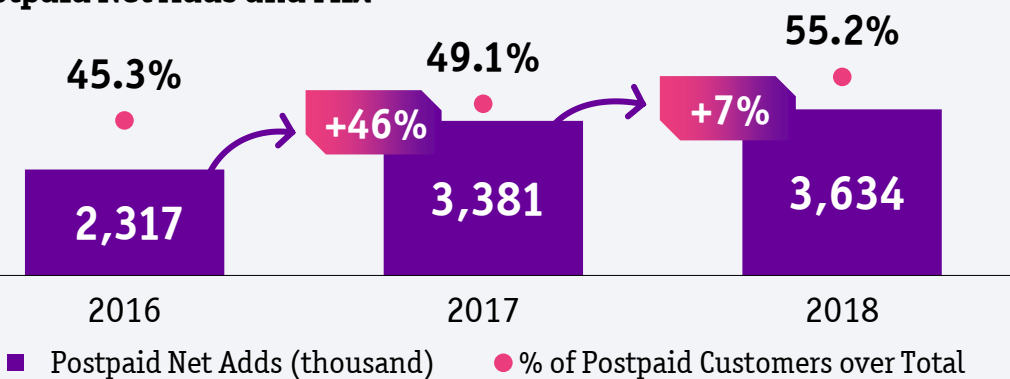


40.5%

Postpaid Market Share

...with unique strength of customer base...

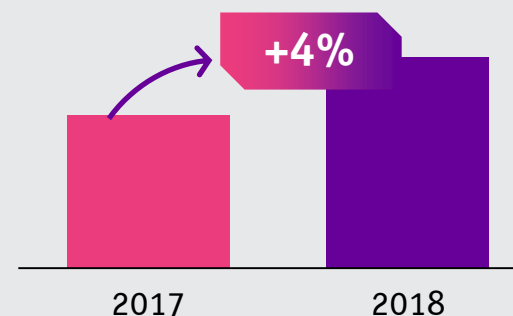
Postpaid Net Adds and Mix



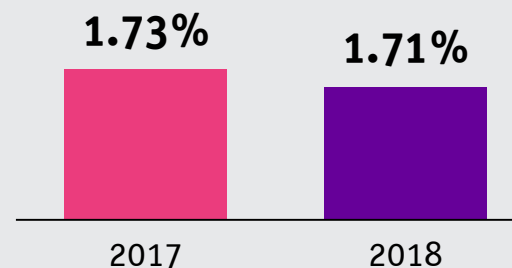
Leader in postpaid net adds during 2018 (31% share)

...whose profile improves as we continue with migrating efforts and controlled churn

Net Migration of Prepaid to Hybrid

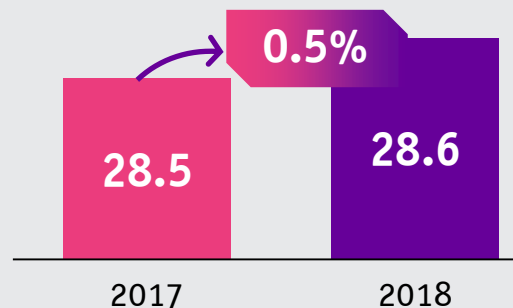


Postpaid Churn (ex-M2M)

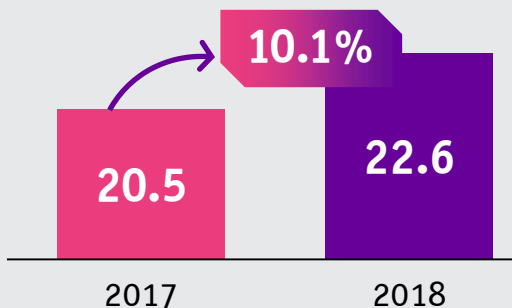


Data contributing to sustain sector-leading ARPU

Total ARPU | R\$ per month

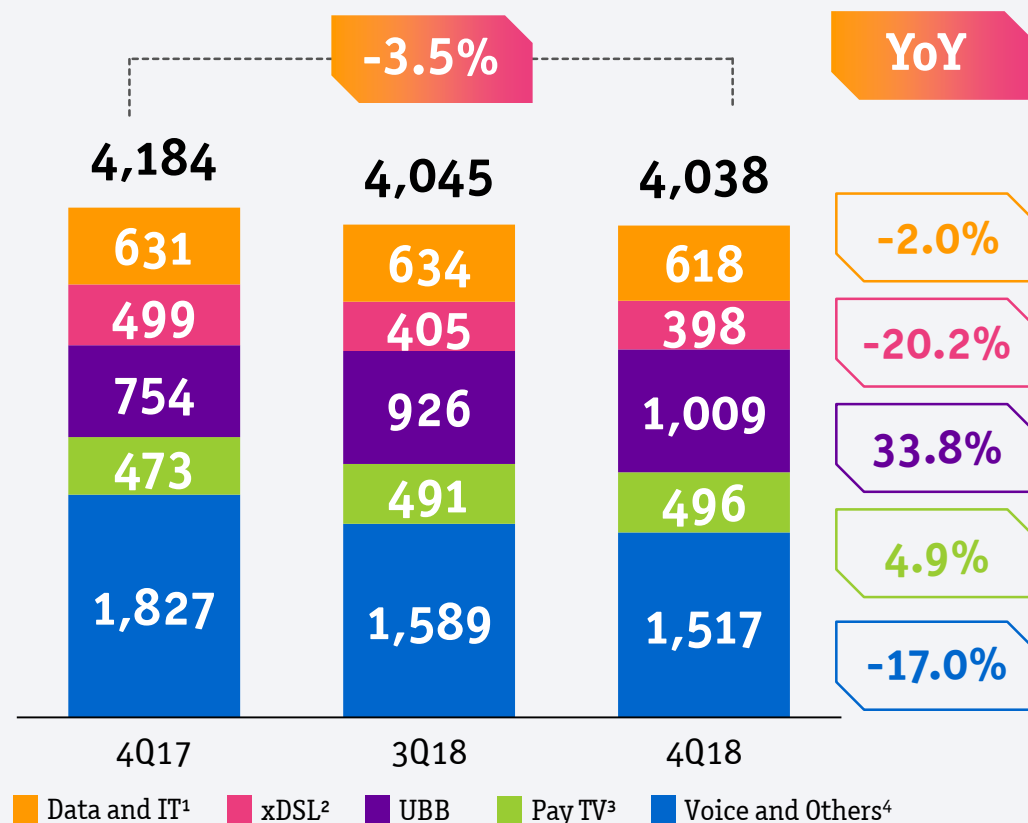


Data ARPU | R\$ per month



Clear improvement of fixed revenues mix during 2018 with double-digit increase of growth products

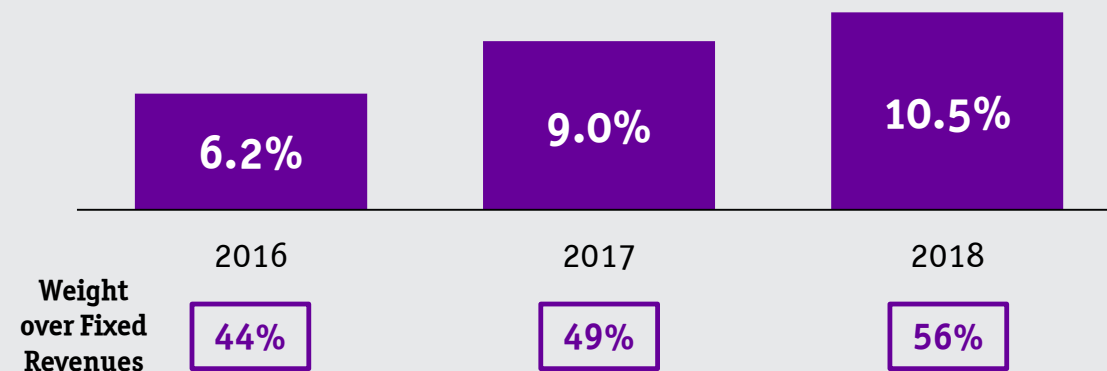
Fixed Revenues R\$ Million



Total **broadband** revenues growing **12.3% YoY in 4Q18**

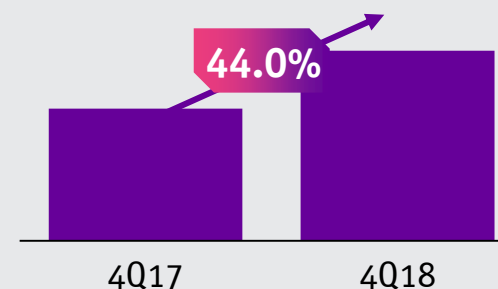
Growing revenues (ex-voice and DTH) expanding double-digit in 2018

Fixed Revenues⁵ ex-Voice and DTH | YoY%

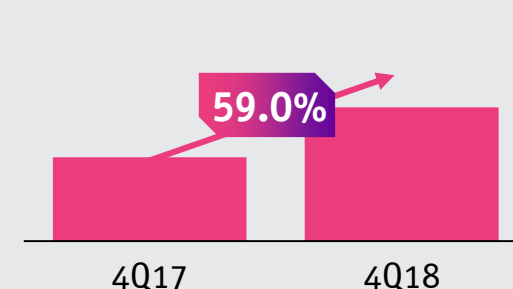


Results from fiber-related products continue to accelerate growth

FTTH Revenue | YoY%



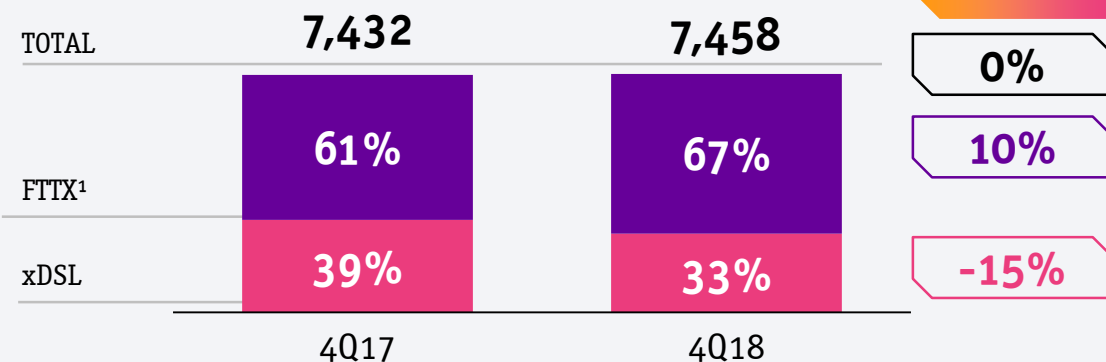
IPTV Revenue | YoY%



Outstanding operating performance of fiber-related products leading to expressive ARPU increase in 2018

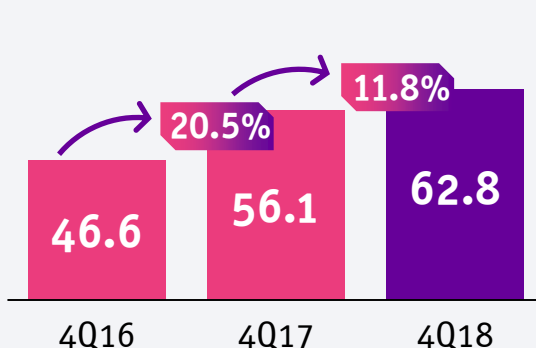
Broadband Accesses and ARPU

BB Accesses | Thousand

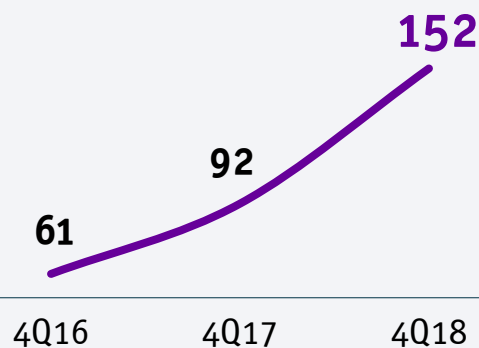


FTTH access growth of **+47% YoY in 4Q18**

BB ARPU
R\$ per month

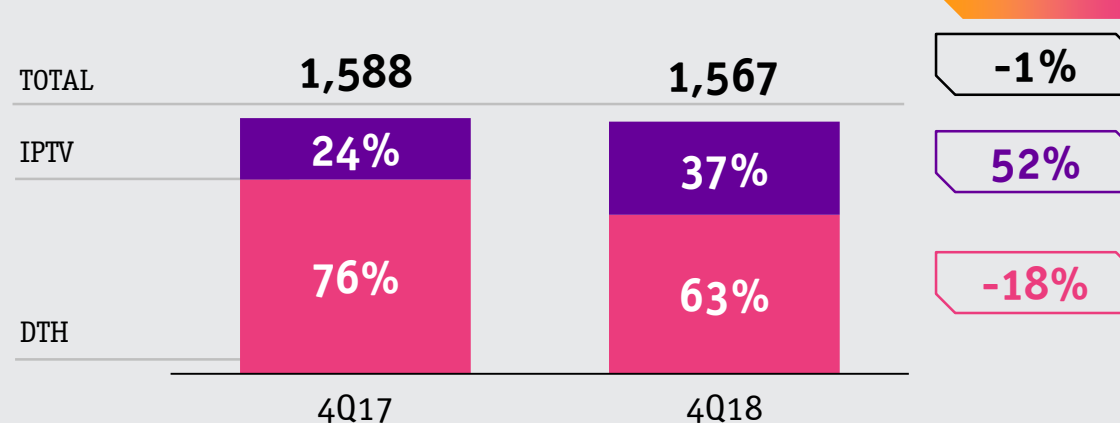


FTTH Accesses
Thousand Net Adds

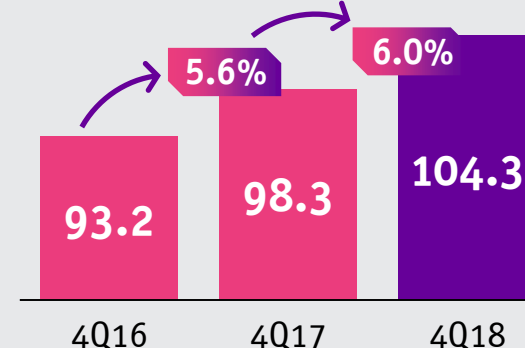


Pay TV Accesses and ARPU

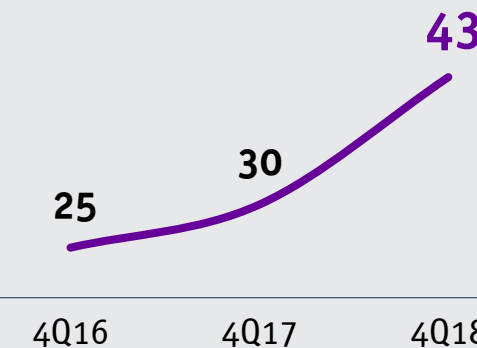
Pay TV Accesses | Thousand



TV ARPU
R\$ per month



IPTV Accesses
Thousand Net Adds

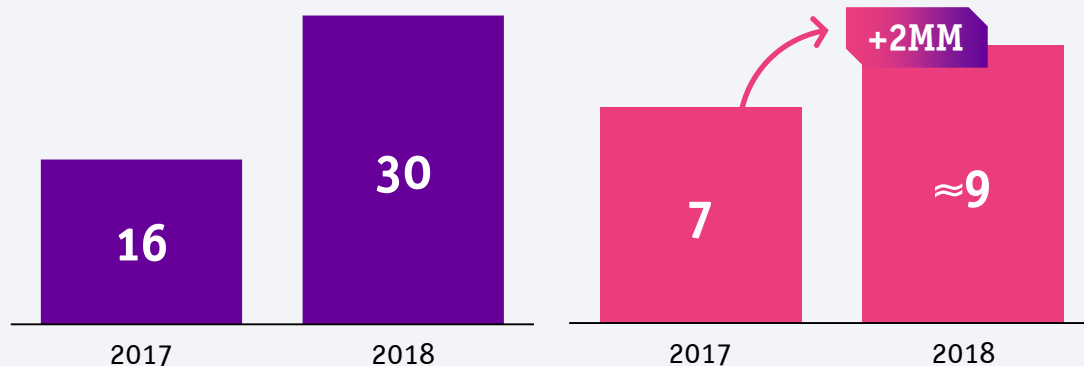


In 2018 we exceeded our internal expectations in terms of fiber footprint expansion and results, confirming the UBB opportunity in Brazil

In 2018 we beat our goals and launched a record number of 30 new FTTH cities...

New FTTH Cities

FTTH HPs | Million



_We already have more FTTH cities (121) than FTTC (120), with IPTV being offered in all locations where we have FTTH

_In 2018, we built approx. 2 million HPs, with a strong focus on both footprint expansion and penetration in existing cities

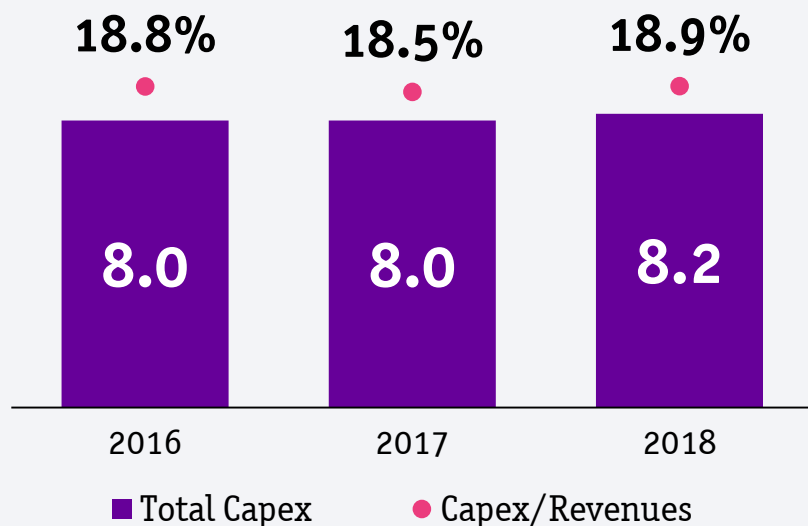
...while continuing to deliver sound results in the cities that were recently launched

KPIs from cities launched in 2017 and 2018

	Best Cases 2017		Best Case 2018
	Barra Mansa/RJ 17 months after launch	Volta Redonda/RJ 19 months after launch	Jataí/GO 2 months after launch
Take-up of installed capacity ¹	87%	81%	43%
BB Share	25%	24%	18%
UBB Share	74%	41%	96%

Investments of R\$ 8.2 billion in 2018, with focus on higher-return, future-proof technologies and IT transformation

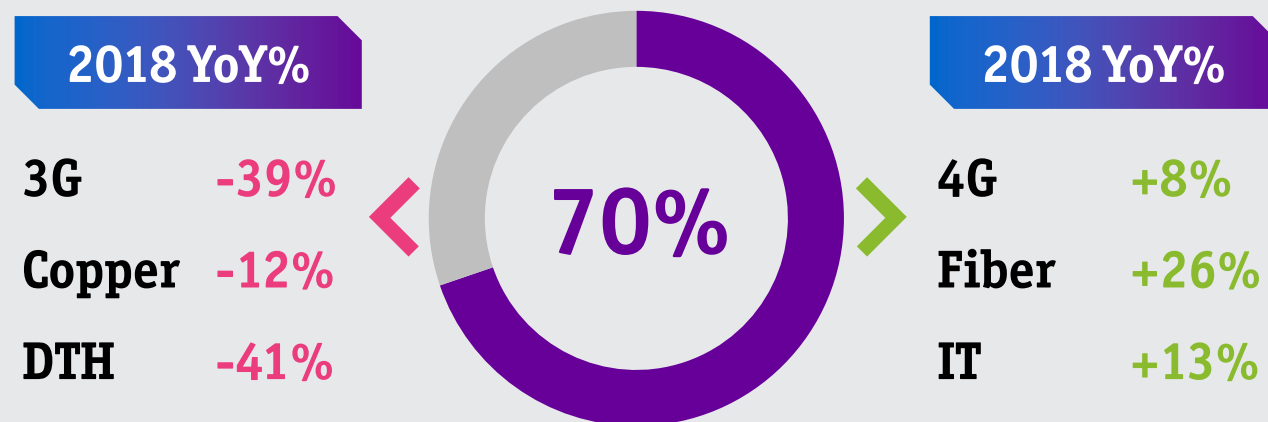
Capex ex-Licenses
R\$ Billion



R\$ 2.1bn 4Q18 Capex

Capex for the year below initial estimations as a result of smart and efficient capital allocation

70% of our Capex investments were oriented to growth...



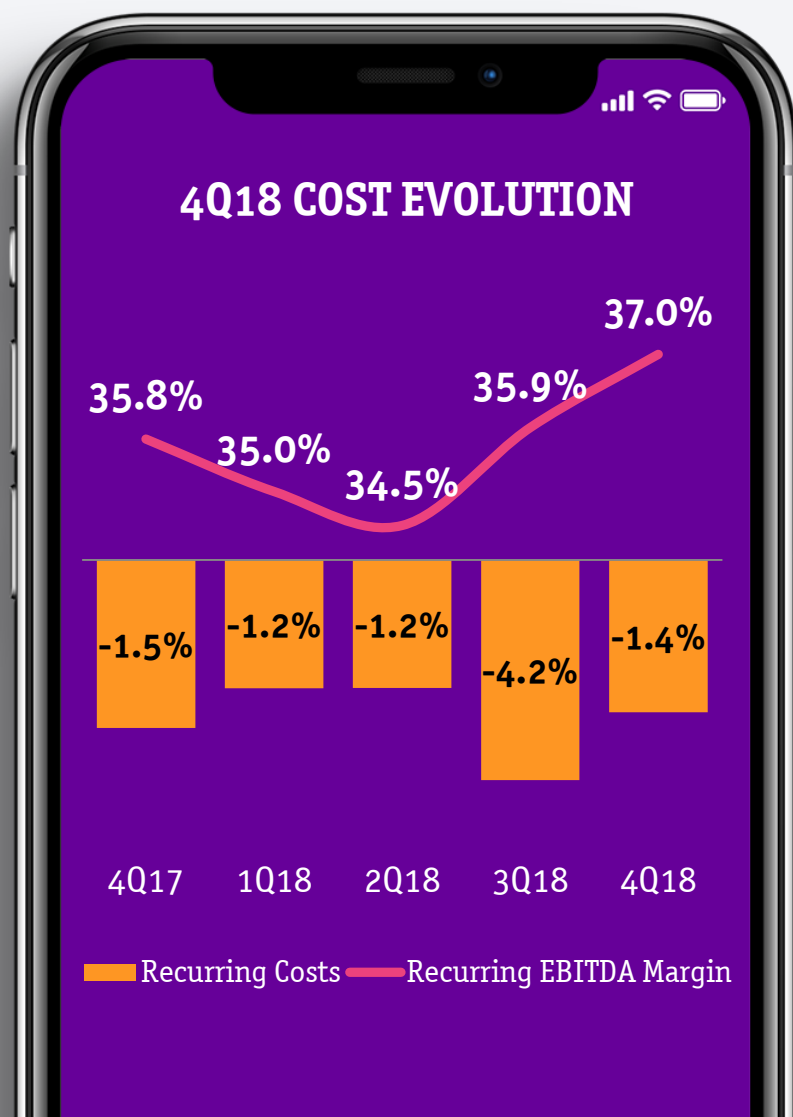
...resulting in an unprecedented expansion of Fiber and 4.5G in Brazil

_Fiber: presence in **241 cities** (121 with FTTH), with IPTV already present in all FTTH cities

_4G: coverage of **3,100 cities** (88% of population), with 4.5G already reaching **1,000 cities** (+819 in 2018)

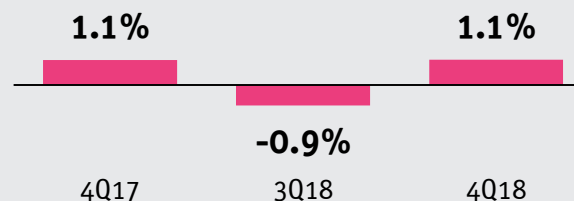
_57% YoY increase in the number of **fibered sites** in 2018

12th consecutive quarter of recurring costs¹ reduction led to **record EBITDA Margin in the quarter**



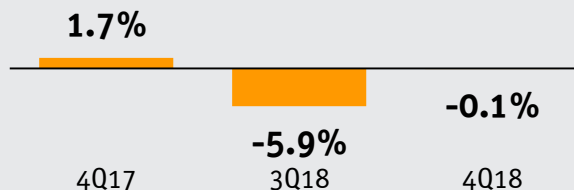
MAIN HIGHLIGHTS

Personnel Costs¹ YoY



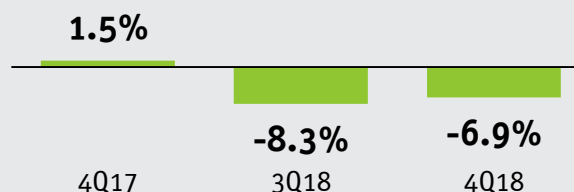
_13.7% of total Opex
_Ongoing restructuring as a part of the digitalization and simplification program

Cost of Services Rendered YoY



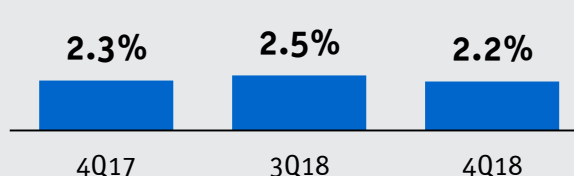
_40.4% of total Opex
_Lower costs with regulatory taxes and interconnection, partially offset by costs related to the expansion of our network

Commercial Expenses² YoY



_26.3% of total Opex
_Expenses with call centers, back office, billing & posting continue to be benefited by digitalization
_Optimizing advertising related expenses

Bad Debt / Gross Revenue Ratio



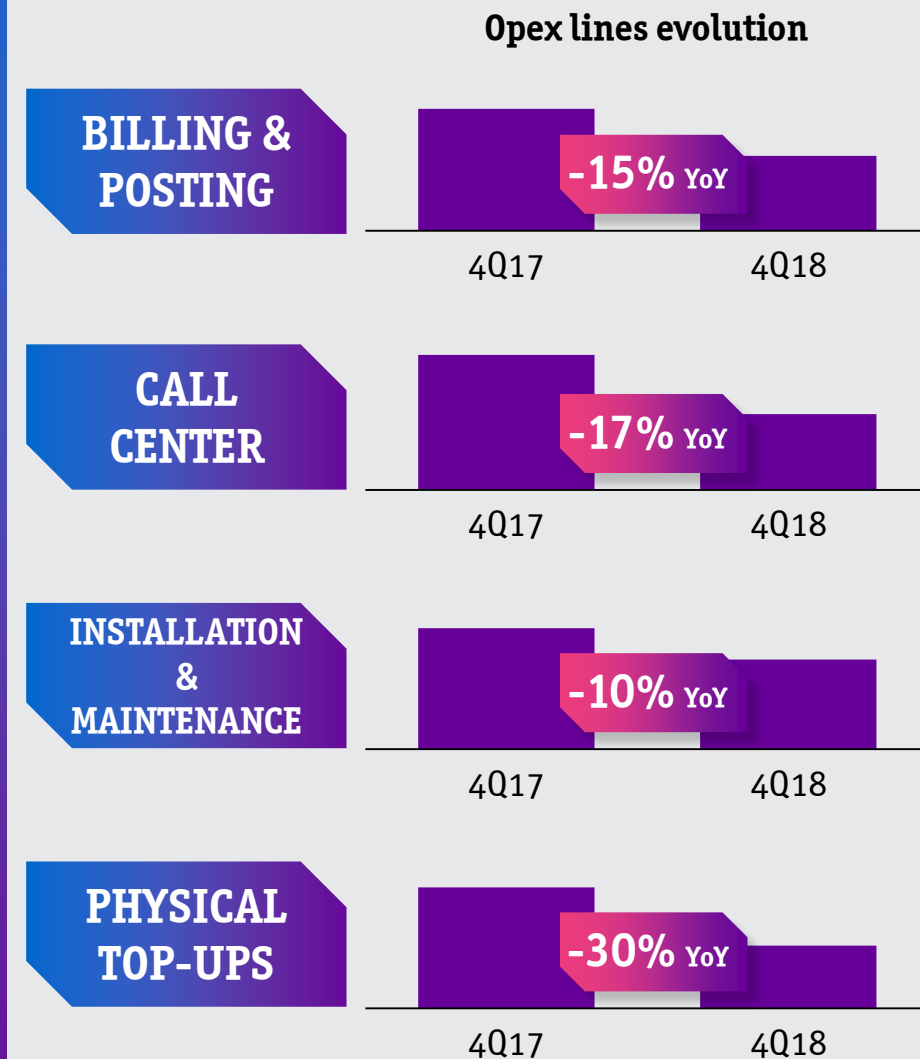
_5.3% of total Opex
_Credit and collection actions leading to the **decrease of bad debt/gross revenues ratio**

1- Excludes the following non-recurring effects: 4Q17: non-cash regulatory provision, in the amount of R\$178.9M. 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. 4Q18: expense of R\$80.2M due to organizational restructuring. 2- Excluding provision for bad debt.

Significant reduction in major cost lines as digitalization changes the way we interact with our customers

Fronts	KPIs	2017	2018
Fostering sales and top-ups through digital channels	_E2E Online Fixed B2C sales	← +43% YoY →	
	_ % of digital top-ups	20%	23%
Enhanced self care penetration	_ Unique users of Meu Vivo	← +22% YoY →	
	_ Call center calls	← -24% YoY →	
More efficient payments & collections	_ Penetration of e-billing	42%	58%
	_ Digital credit scoring	57%	64%
Robust IT and improved technical support	_ % PoS in Full Stack	-	100%
	_ % digital technical support	-	73%

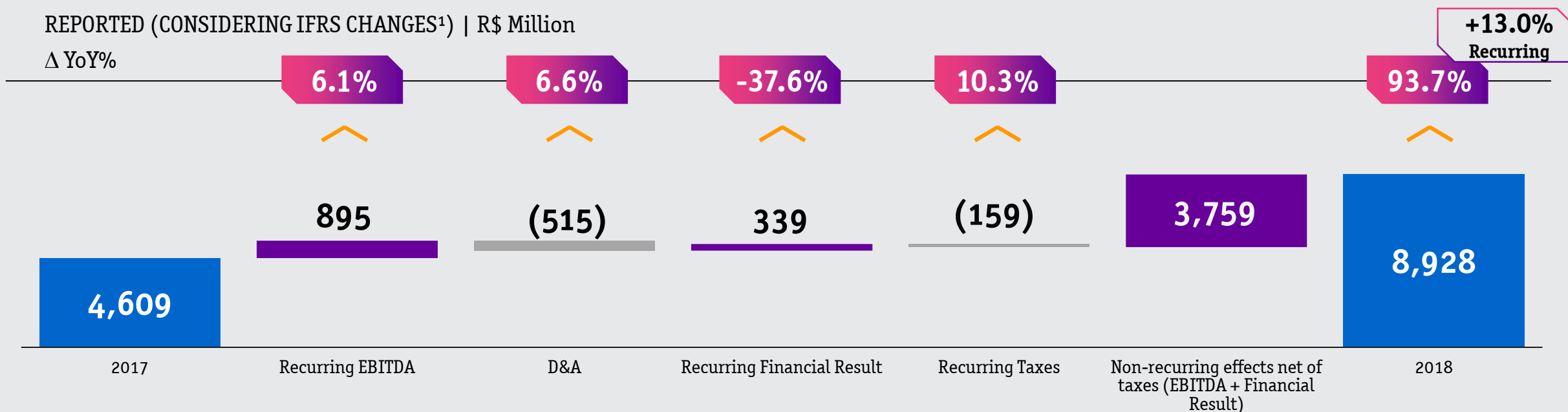


Net income reported in 2018 reached a historical record, almost doubling on an YoY basis

2018 Net Income | R\$ Million and % YoY

REPORTED (CONSIDERING IFRS CHANGES¹) | R\$ Million

Δ YoY%



MAIN HIGHLIGHTS

EBITDA

Expansion of **growing businesses** and **cost control** through **digitalization** and **efficiency**

NON-RECURRING EFFECTS

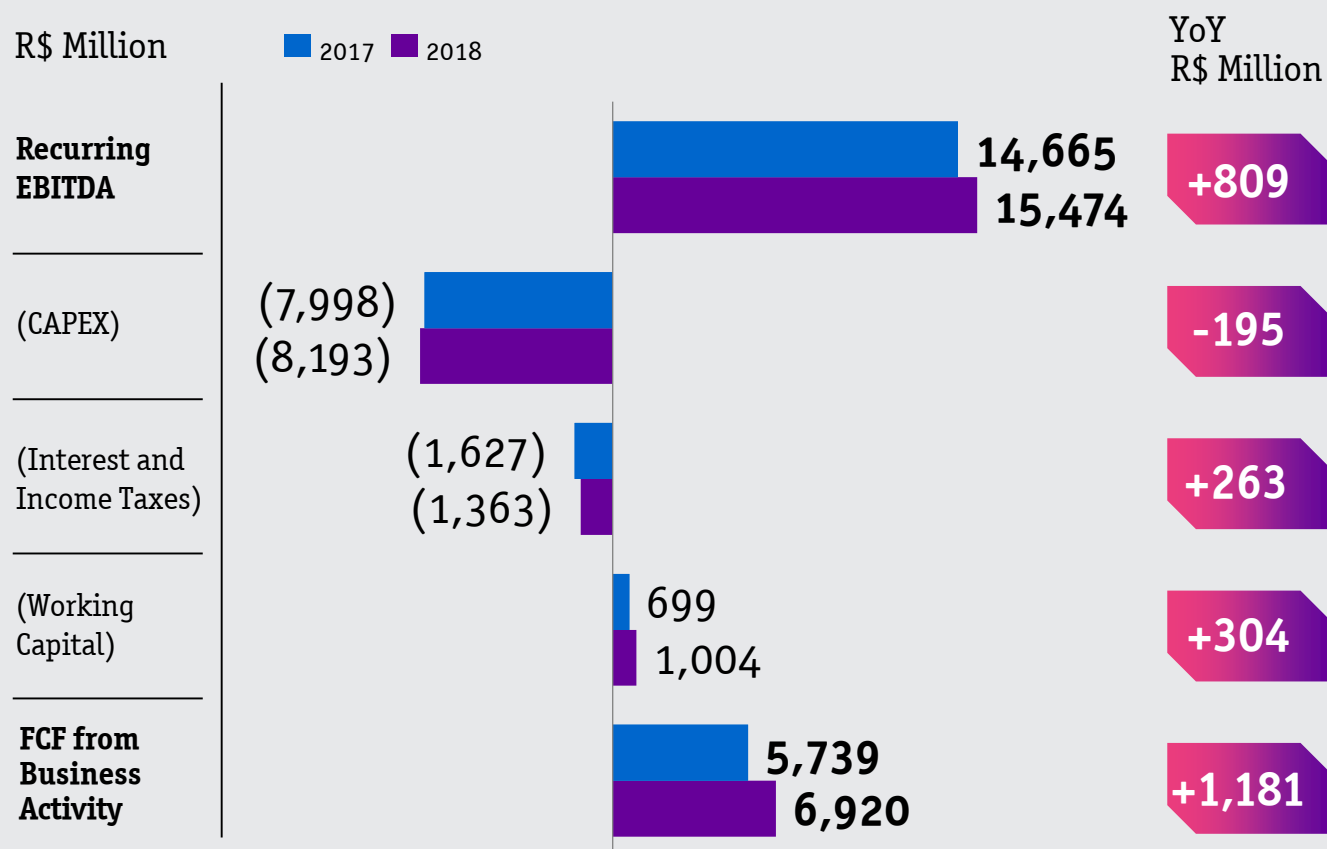
Non-recurring effects recorded throughout the year impacting **EBITDA and Financial Result**, in a combined amount of **R\$ 3.8 billion** (net of taxes)

RECURRING TAXES

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

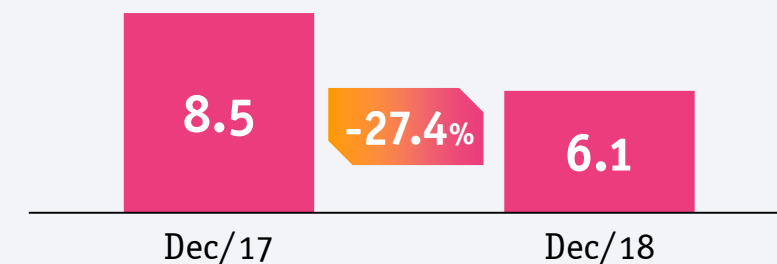
Free Cash Flow soaring 20.6% YoY in 2018 with solid EBITDA expansion and efficient financial management

Free Cash Flow¹ reaching R\$ 6.9 billion in the year, allowing for higher investments and shareholder remuneration

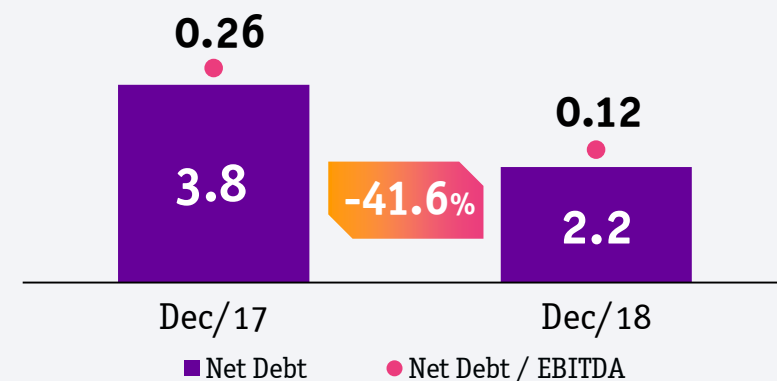


Strong balance sheet contributes to low leverage

Gross Debt | R\$ Billion

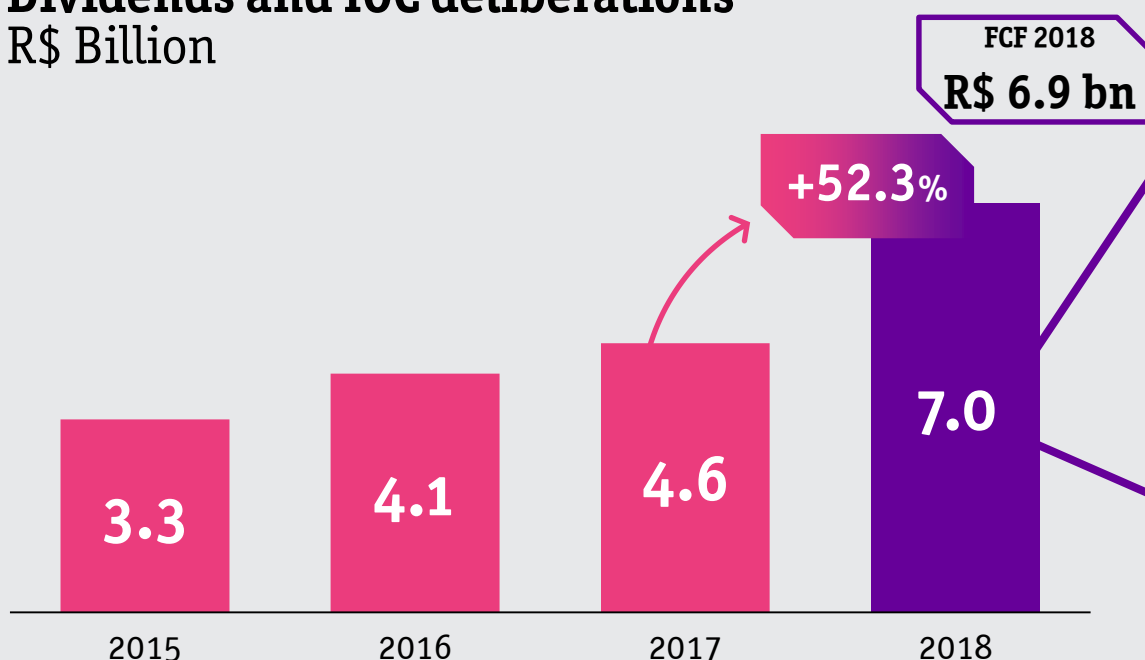


Net Debt | R\$ Billion



Record distribution of dividends and IOC in 2018, boosted by strong net income and cash generation

Dividends and IOC deliberations R\$ Billion



Schedule of Payments

Payment of R\$ 7.0 billion in dividends + IOC¹

2019 remuneration is **52% higher YoY**

Payment Date ²	Gross Amount	R\$/share (PN ³)
Aug 20, 2019	R\$ 3.2 bn	R\$ 1.95
Dec 17, 2019	R\$ 3.8 bn	R\$ 2.33
Total	R\$ 7.0 bn	R\$ 4.28

R\$ 700 million of Interest on Capital already declared on February 15, based on 2019 financial statements

Effects of IFRS 15 on our 4Q18 results

R\$ million	Pro forma ¹		IFRS Adjustments	Reported ¹	
	4Q18 w/o IFRS	Δ% YoY		4Q18 w/ IFRS	Δ% YoY
Net Operating Revenue	11,093.9	0.5%	-8.4	11,085.5	0.5%
Net Service Revenue	10,588.3	-1.4%	-70.1	10,518.2	-2.0%
Net Mobile Service Revenue	6,550.6	0.0%	-70.1	6,480.4	-1.1%
Net Fixed Revenue	4,037.8	-3.5%	0.0	4,037.8	-3.5%
Net Handset Revenue	505.5	70.0%	61.8	567.3	90.8%
Recurring Operating Costs	-6,989.9	-1.4%	30.9	-6,959.0	-1.8%
Personnel	-959.8	1.1%	5.6	-954.2	0.5%
Commercial Expenses	-2,209.4	-5.9%	25.3	-2,184.1	-6.9%
Recurring EBITDA	4,104.0	4.0%	22.5	4,126.5	4.6%
Recurring EBITDA Margin	37.0%	1.2 p.p.	0.2 p.p.	37.2%	1.5 p.p.
Net Income	1,471.9	-3.0%	14.9	1,486.7	-2.0%

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.

Telefónica

vivo

FOR FURTHER INFORMATION:
INVESTOR RELATIONS



+55 11 3430.3687



ir.br@telefonica.com



www.telefonica.com.br/ir

ISEB3
2019

VIV
LISTED
NYSE

[B]³
BRASIL
BOLSA
BALCÃO

Sustainability: Responsible Business Plan 2018



The **Responsible Business Plan** is our performance model to monitor the **Sustainability management of Telefônica Brasil**.

In order to **boost value creation and business Sustainability**, the Responsible Business Plan aims to ensure that our strategy is always focused on **enhancing our positive impacts and reducing our negative impacts on society and the environment**, leading to a long-term relationship of trust with our stakeholders.

MAIN TOPICS

Risk Management



Ethical

Sustainable Production



Talent attraction and Diversity



Environment



Sustainability Supply Chain Management

Sustainability as a Growth Lever



Telco as a driver of development



Sustainable Innovation



Focus on the customer and Digital Trust

MAIN INDICATORS MONITORED

- ✓ 100% of Telefônica Brasil's energy consumption comes from **renewable sources** (with Renewable Energy Credits)
- ✓ Company more committed to **privacy of customers data in the Internet**, according to the InternetLab
- ✓ **Telefônica Brasil is**, for the seventh consecutive year, **in B3's Corporate Sustainability Index (ISE)**, Brazilian Stock Market Sustainability Index
- ✓ In 2018, Telefônica Brasil marked its presence in the **Exame Sustainability Guide**
- ✓ Telefônica Brasil is the **only telco company** in Vigeo Eiris Best Emerging Markets Performance Ranking
- ✓ The **Vivo Diversity Program** was launched in 2018