

Telefônica

vivo

Results **2Q18**

Investor Relations
Telefônica Brasil S.A.

July, 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

2Q18 HIGHLIGHTS

Ongoing Revenue Expansion

Total Revenues

+1.1%

+1.4% YoY in 1H18

Mobile Revenues

+4.2%

+4.2% YoY in 1H18

Fixed UBB

+19.6%

+21.0% YoY in 1H18

Sustainable Increase of Margin and Profitability

Recurring Operating Costs

-1.2%

YoY

Recurring EBITDA Margin

34.5%

+1.5 p.p. YoY

OpCF Margin

17.7%

in 1H18

Unique Assets with Irreplicable Position in Key Segments

Postpaid Net Adds

+936k

+9.1% YoY

FTTH Net Adds

+162k

+30.2% YoY

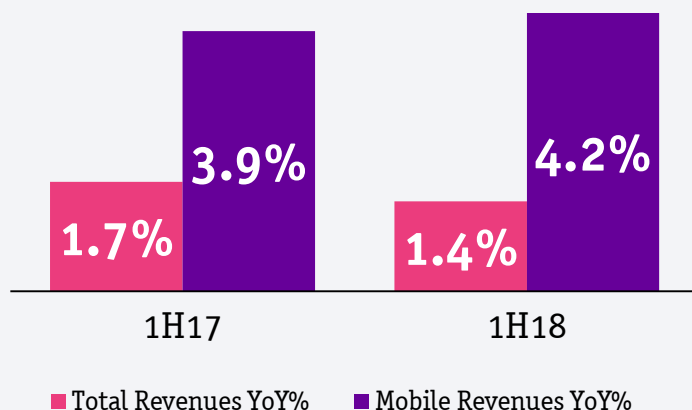
Cities with 4G+

714

+596 in 2018

Consistent evolution of revenues and continued EBITDA expansion leading to strong FCF generation in 1H18 even with higher investments

Revenues



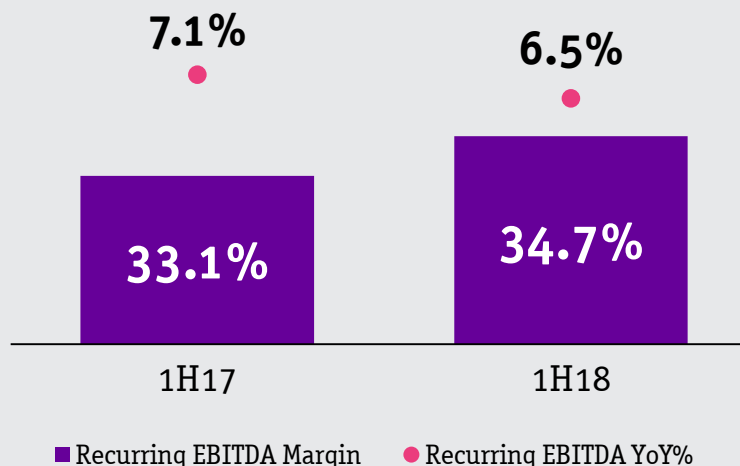
Total revenue evolution on the back of strong operating performances in key segments

Mobile revenue growth positively impacted by sustained postpaid evolution and soaring handset sales

Leader in postpaid share of net adds in 2018

Record level of net adds in FTTN leading to another quarter of double-digit growth in UBB

Recurring EBITDA¹

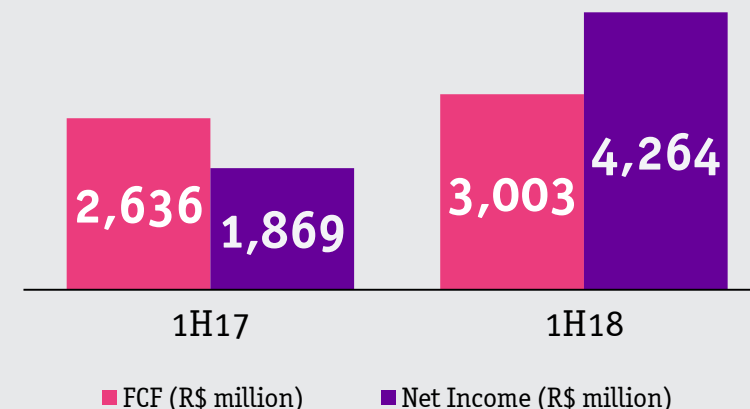


Recurring Opex contraction for the tenth consecutive quarter as a result of cost control through digitalization and simplification

Consistency as the key for **continued EBITDA expansion**

Highest 2Q EBITDA Margin since 2013 (+1.5 p.p. YoY)

FCF² and Reported Net Income



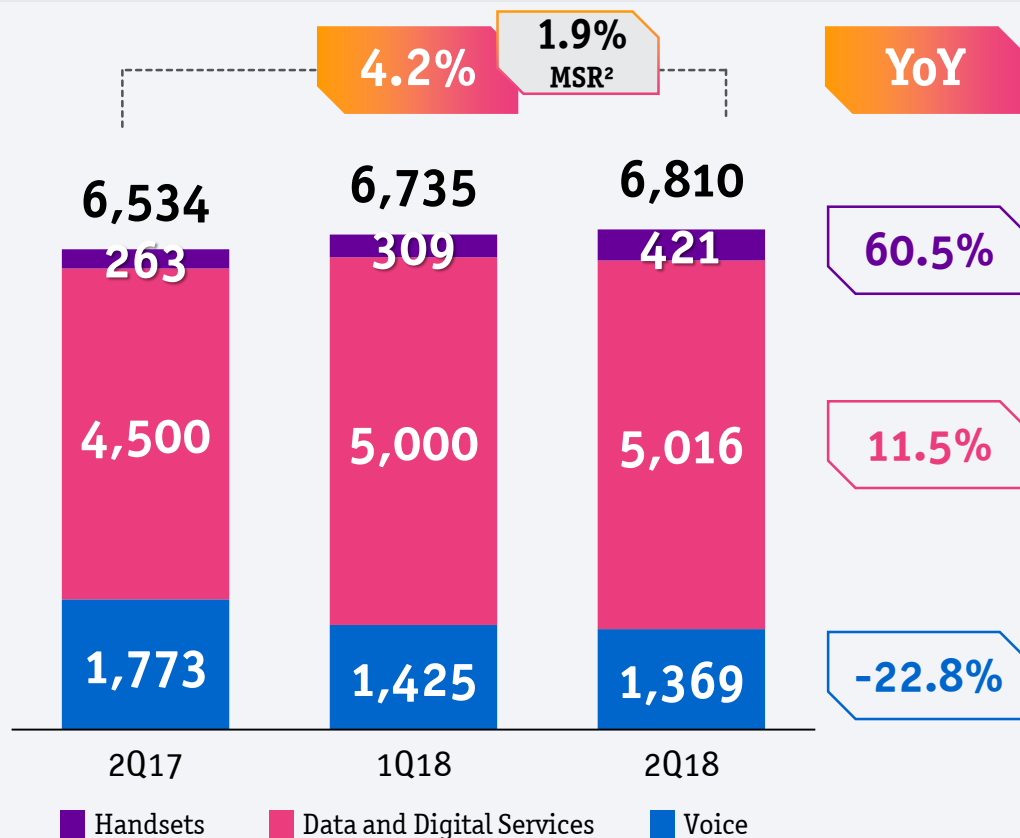
R\$3.7 billion Capex in 1H18 leading to **17.1% of Capex/Revenues**

Strong Free Cash Flow generation, reaching R\$3.0 billion in 1H18 (+13.9% YoY) even with higher level of investments

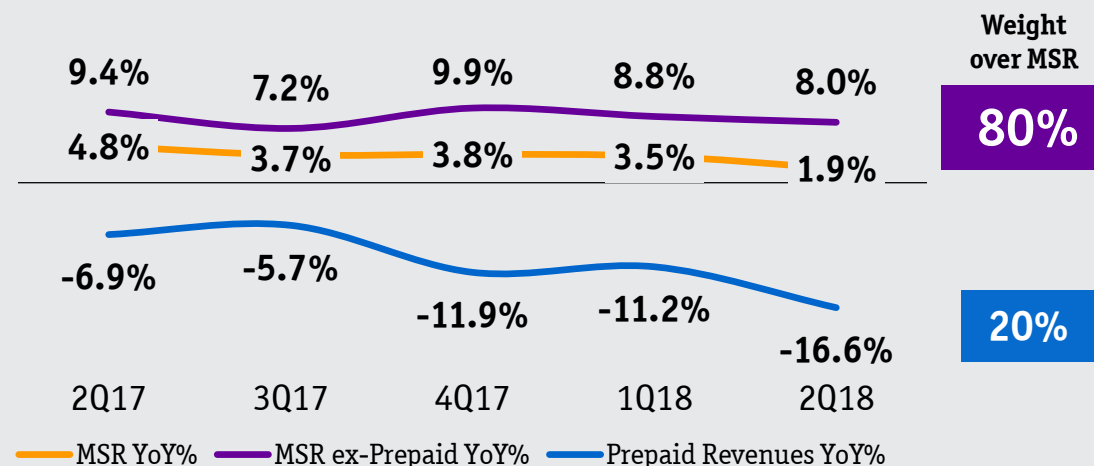
Reported Net Income grew 128.1% in 1H18 on the back of extraordinary judicial gains in the quarter, **reaching R\$4.3 billion**

Mobile revenues boosted by solid postpaid evolution, mobile data and handset sales

Mobile Revenues¹ R\$ Million



Sustaining MSR growth through solid evolution of postpaid revenues



Robust high single digit growth in postpaid

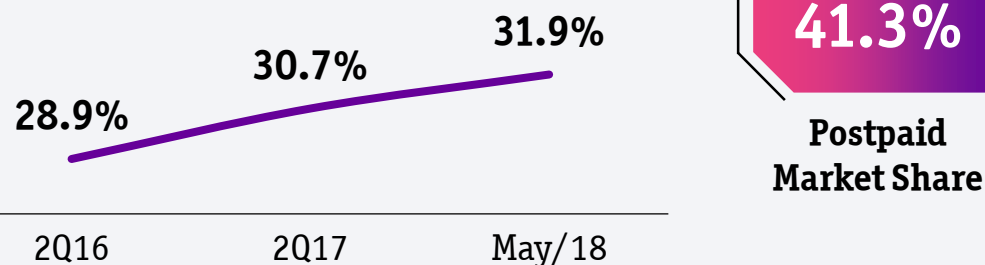
Prepaid revenues still being strongly affected by negative macroeconomic trends related to high unemployment and soft consumption

On the other hand, B2B mobile service revenues continued to expand with positive growth in 2Q18, contributing to maintain MSR ex-prepaid growing at high single digit levels

Improving postpaid net adds and continued migration efforts resulting in a postpaid mix of more than 50% over our accesses

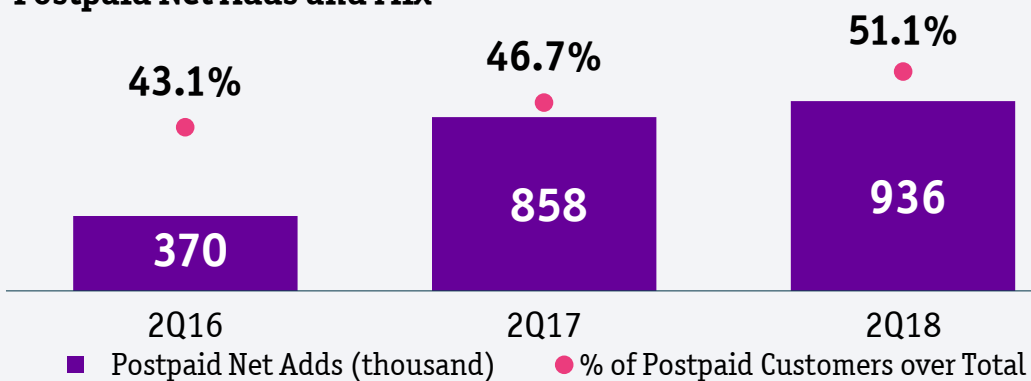
Expanding leadership in the mobile market

Mobile Market Share



Strongest level of 2Q postpaid net adds since 2014

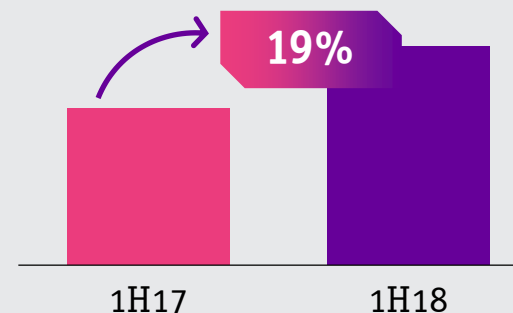
Postpaid Net Adds and Mix



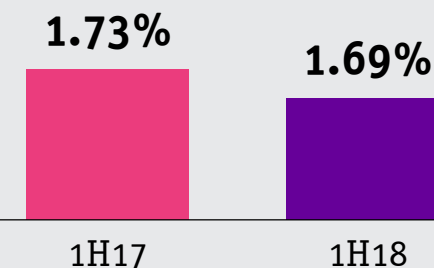
Leader in postpaid net adds in both April and May 2018

Continued healthy evolution in migrations to hybrid and improved loyalty

Net Migration of Prepaid to Hybrid

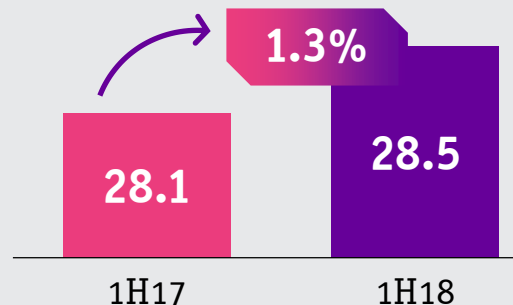


Postpaid Churn (ex-M2M)

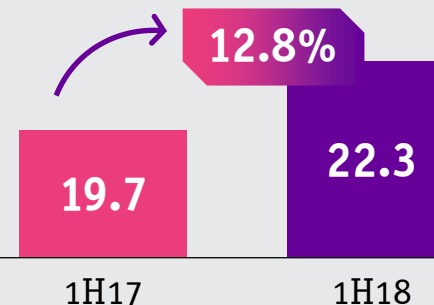


Data upselling contributing to ARPU growth

Total ARPU | R\$ per month



Data ARPU | R\$ per month



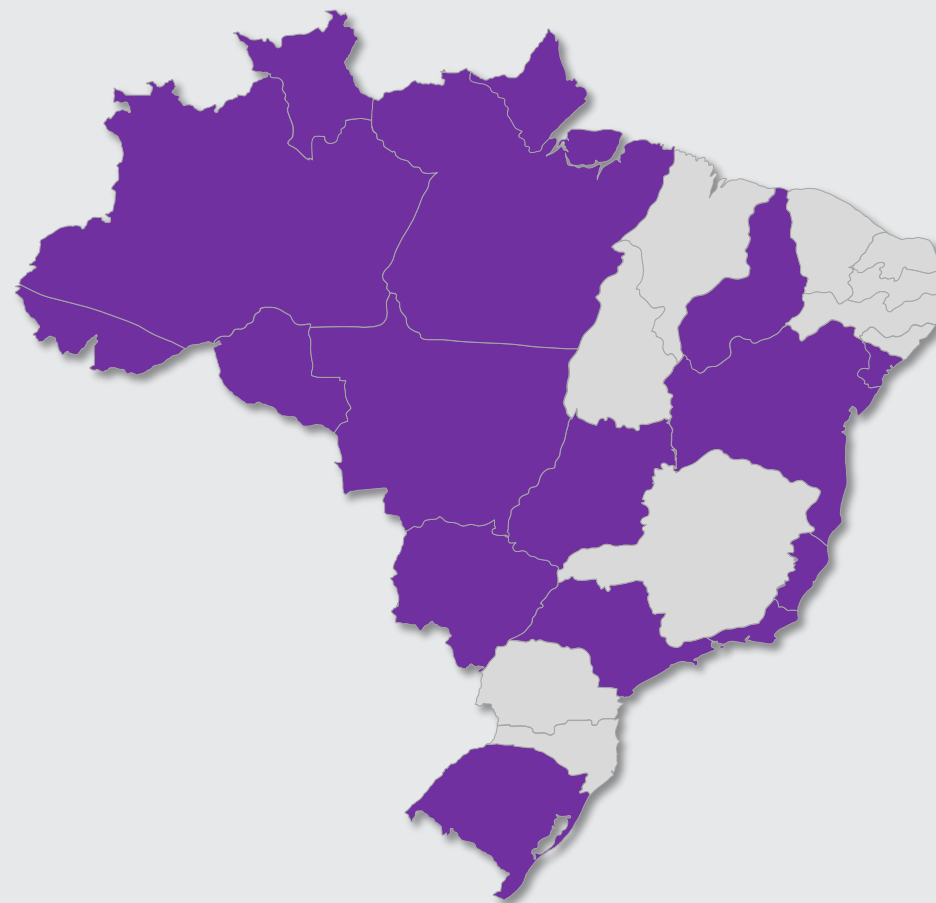
Unrivaled mobile asset portfolio creates **unique positioning to address exponential data consumption growth**

_Largest 4G+ presence nationwide, reaching 714 cities in 2018, enabling us to provide a differentiated customer experience

_Best positioned in premium spectrum bandwidth with **rapid expansion of double and triple carrier aggregation** using 700MHz, 1.8GHz and 2.5GHz frequencies

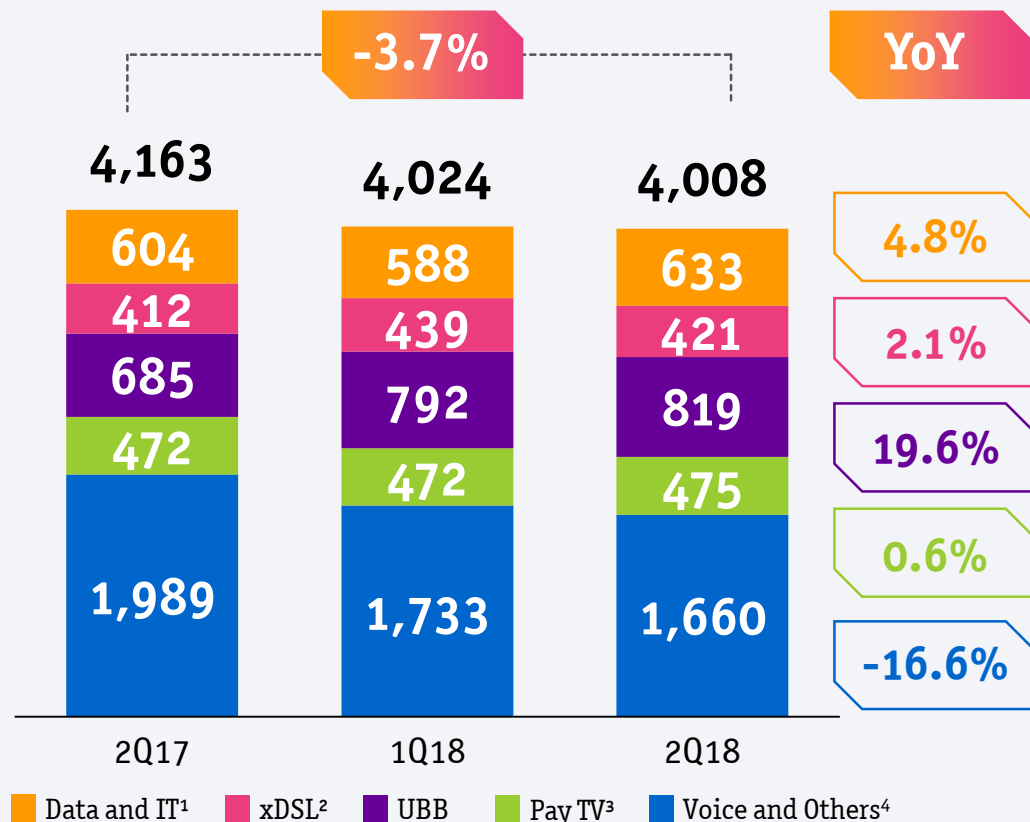
_Clear 4G monetization opportunity going forward as only 51% of our customer base uses 4G, while we cover 86% of the population

Leader in 4G coverage in 17 Brazilian states



Deterioration of fixed revenues due to accelerated voice decline partially offset by strong performances of UBB and IPTV

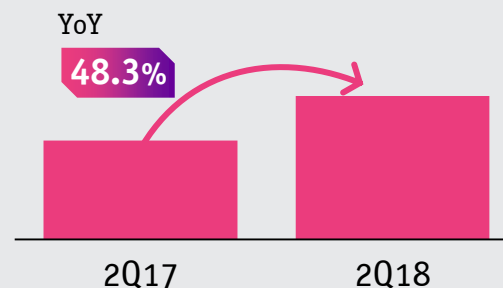
Fixed Revenues R\$ Million



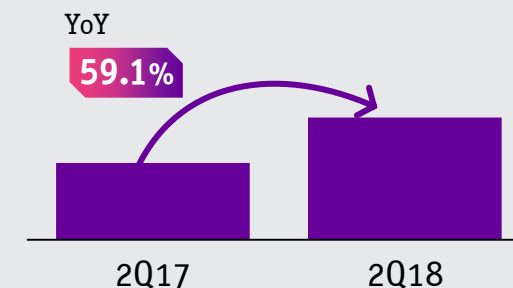
Non-voice revenues already represent **62.1% of Fixed Revenues** (+5.9 p.p. YoY)

Key revenue lines maintaining impressive performance

FTTH Revenue | R\$ million

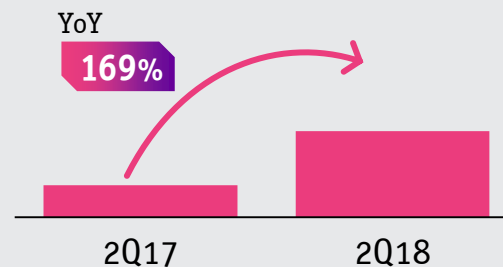


IPTV Revenue | R\$ million

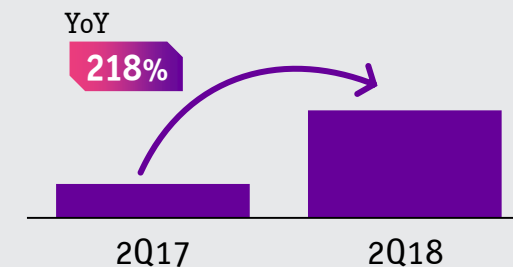


Fixed B2B segment boosted by growing importance of digital revenues

Security Revenue | R\$ million



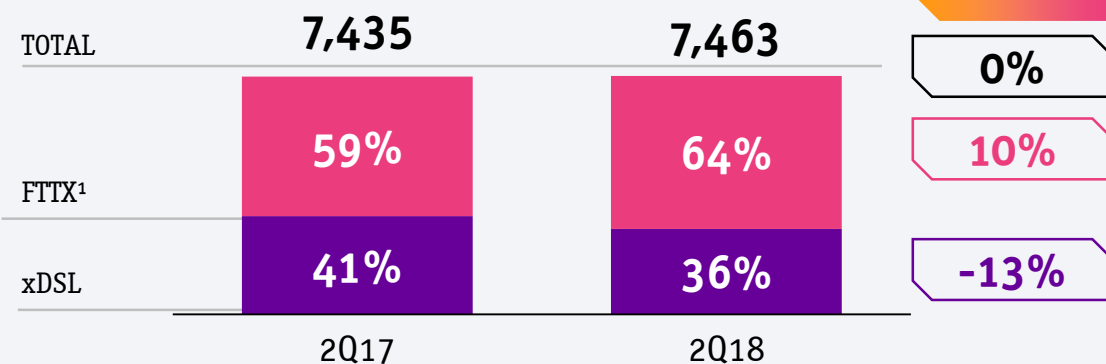
Cloud Revenue | R\$ million



Successful fiber expansion attested by strong ARPU growth, improved customer mix and **record level of net adds in both FTTH and IPTV**

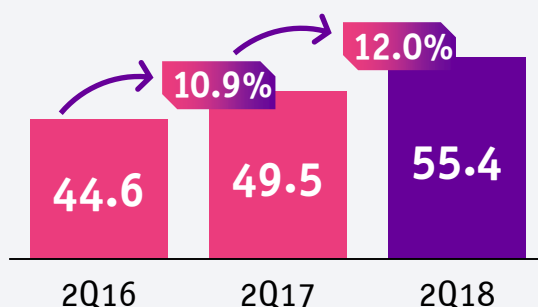
Broadband Accesses and ARPU

BB Accesses | Thousand

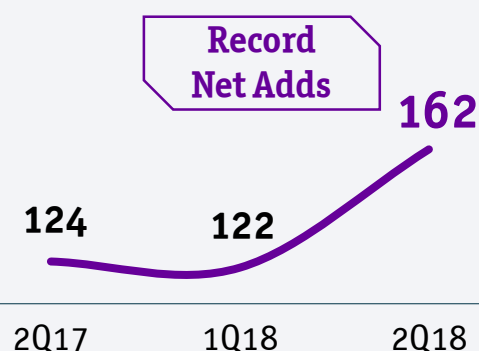


FTTH access growth of **+45% YoY in 2018**

BB ARPU
R\$ per month

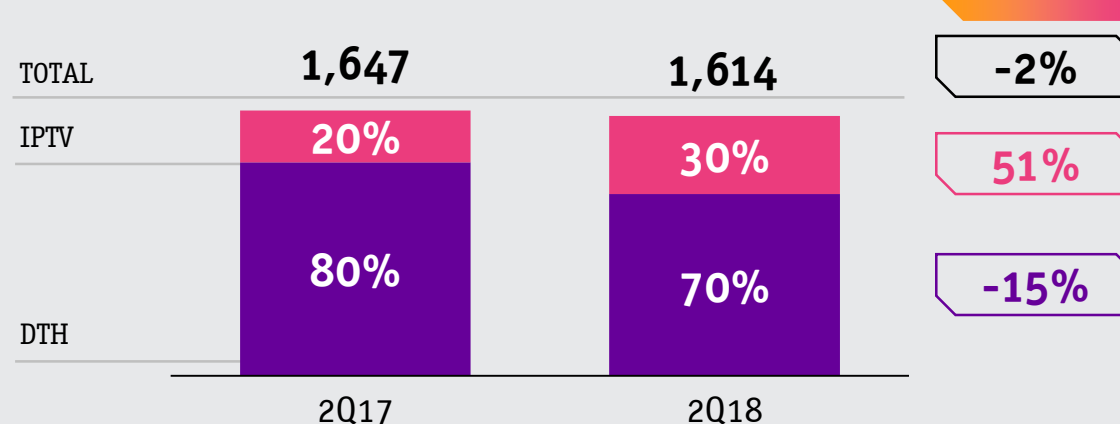


FTTH Accesses
Thousand Net Adds

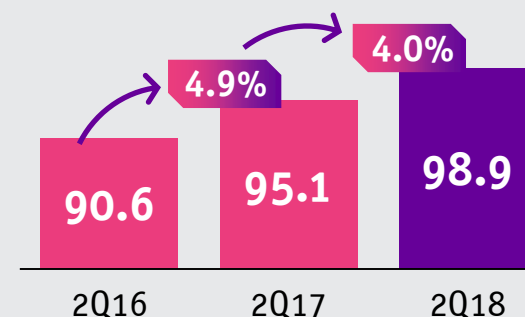


Pay TV Accesses and ARPU

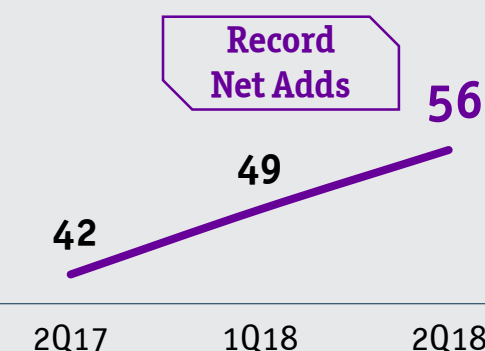
Pay TV Accesses | Thousand



TV ARPU
R\$ per month

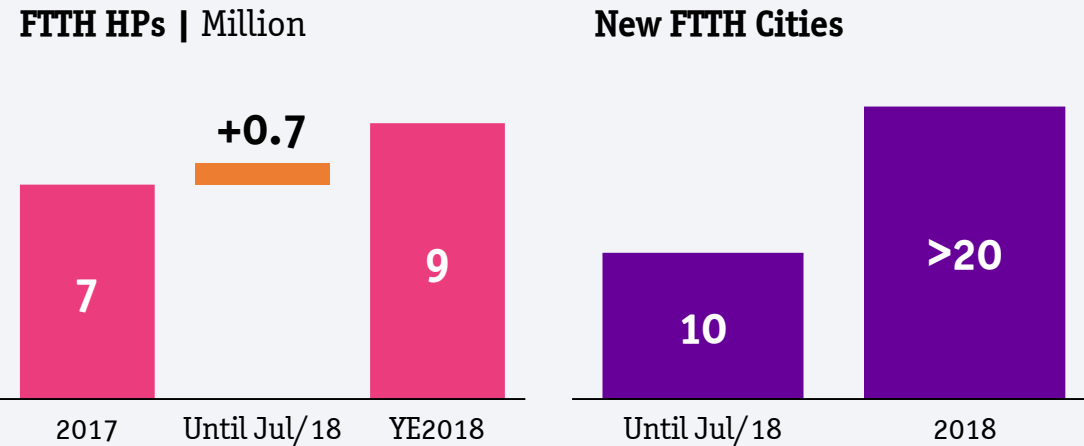


IPTV Accesses
Thousand Net Adds



FTTH expansion on track to reach targets for the year, bringing sound early results for the Company in new cities

Accelerated coverage expansion during the year to reach 2018 targets

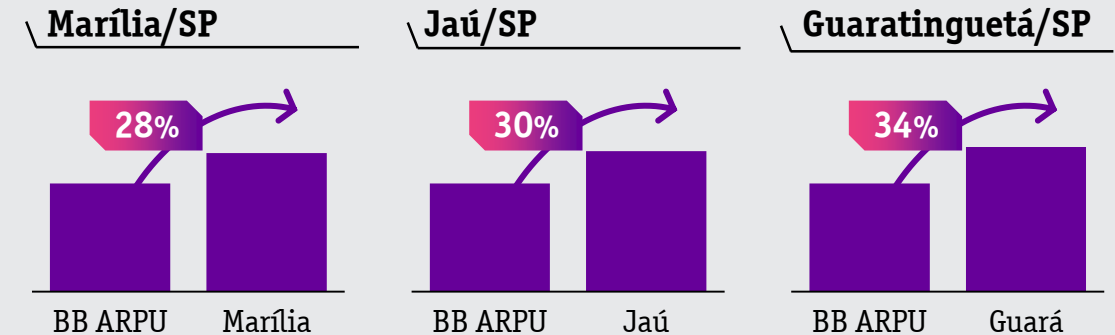


_HPs expansion in 2018 includes **considerable increase of footprint in existing FTTH cities**, allowing us to improve penetration in larger cities

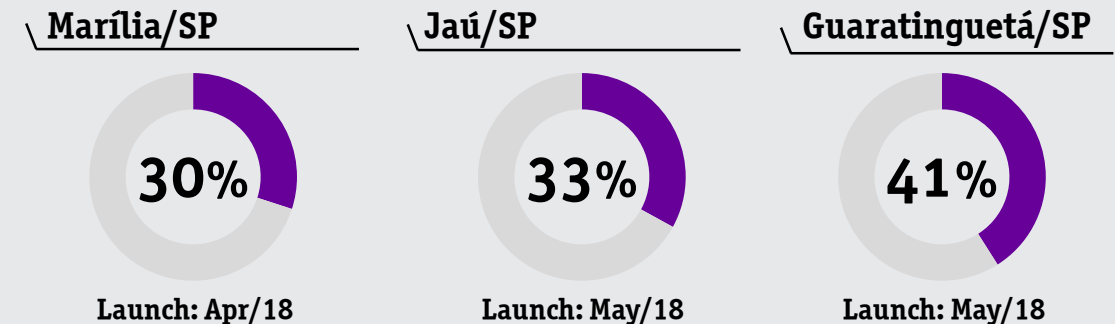
_Take-up of IPTV reaching up to 40% over installed capacity in new FTTH cities, contributing to customer totalization

Expressive results across the board in cities launched in 2018

ARPU in new cities considerably higher than total BB ARPU...

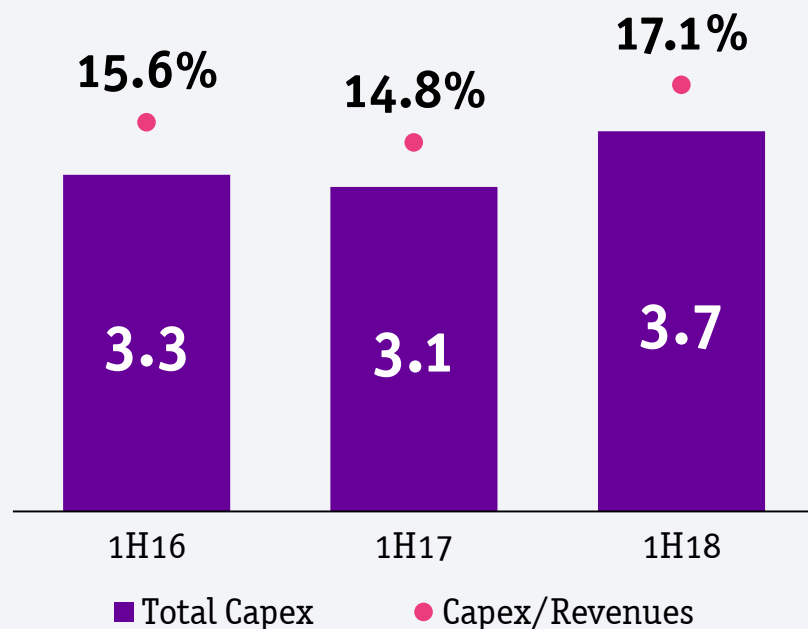


...with **UBB market share reaching high levels** only a few months after launch, despite strong competition in these cities



Capex focused on the accelerated expansion of fiber and enhanced 4G experience

Capex
R\$ Billion



R\$2.1bn

2Q18 Capex

Unique asset base built over the years gives us an edge in quality terms...

_ **Fiber**: presence in **224 cities (98 with FTTH)**, with **IPTV** already present in **92 cities**

_ **4G**: coverage of **86%** of population (+10 p.p. YoY), with **4G+** already reaching **714 cities (+596 in 2018)**

_ **38% YoY** increase in the number of **fibered sites** in 2Q18

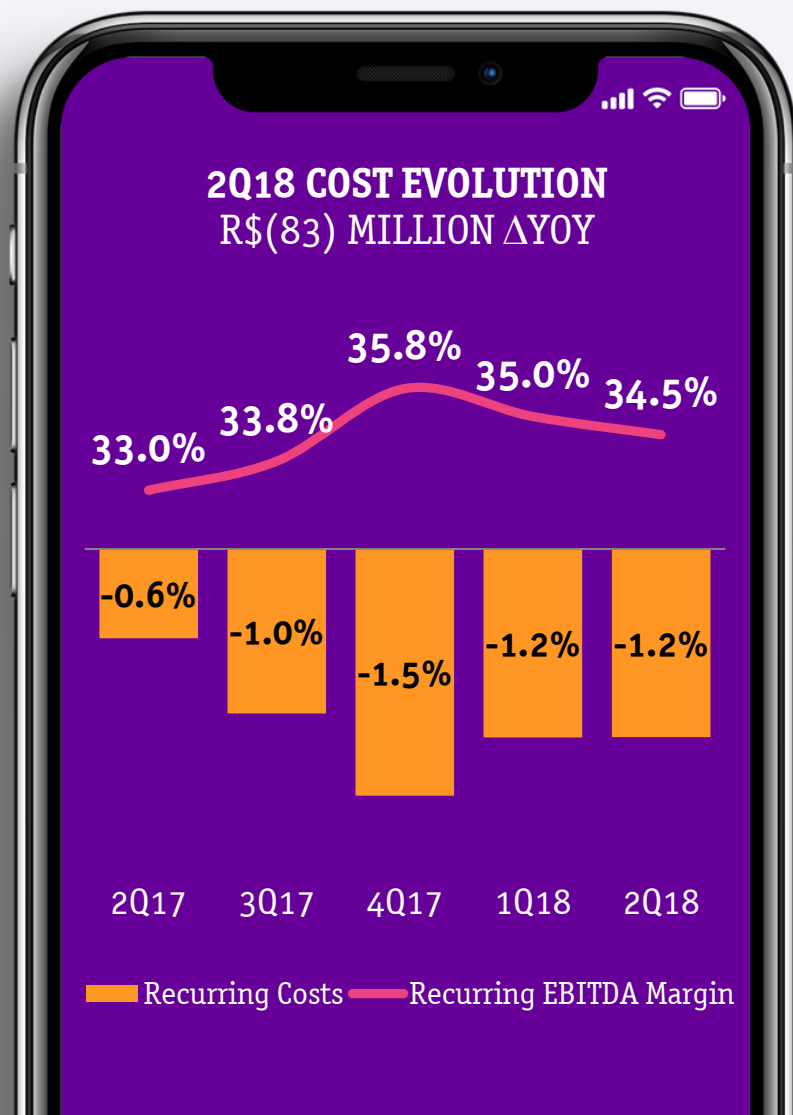
...while we continue to invest to improve customer experience and satisfaction

_ Smart Capex allocation through the **use of Big Data to identify the areas where the traffic of higher-value customers is concentrated**, enabling us to focus our investments

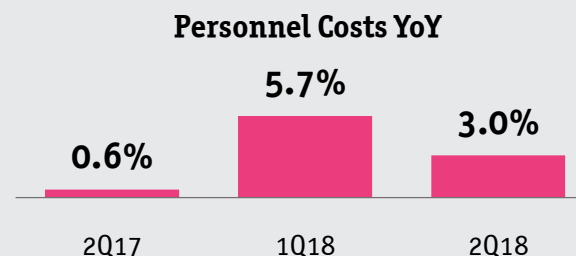
_ Fiber expansion leading to **best-in-class experience for both fixed and mobile premium customers**

_ **IT** transformation to **full stack** evolving at an accelerated pace

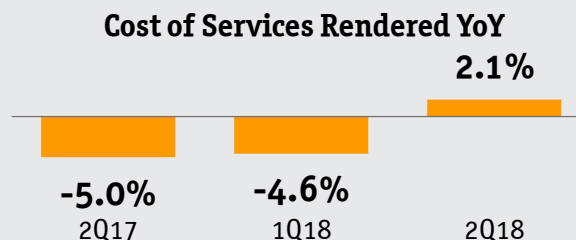
Reducing recurring costs¹ YoY for the 10th consecutive quarter led by digitalization initiatives



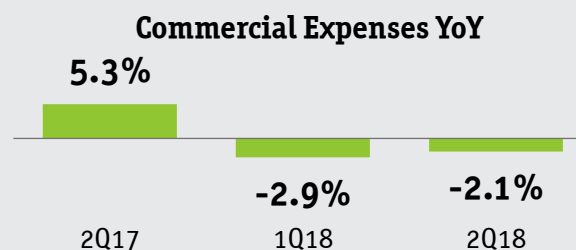
MAIN HIGHLIGHTS



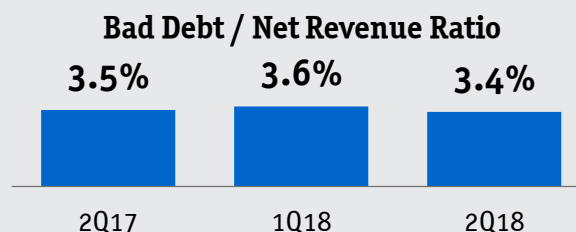
13.3% of total Opex
Variation **in line with inflation**
Restructuring in 2018 as a result of the evolution in the process of digitalization and simplification



41.2% of total Opex
Higher costs with **network expansion and interconnection**



27.5% of total Opex
Capture of benefits from **digitalization** reducing expenses with **commissions, call center and billing**

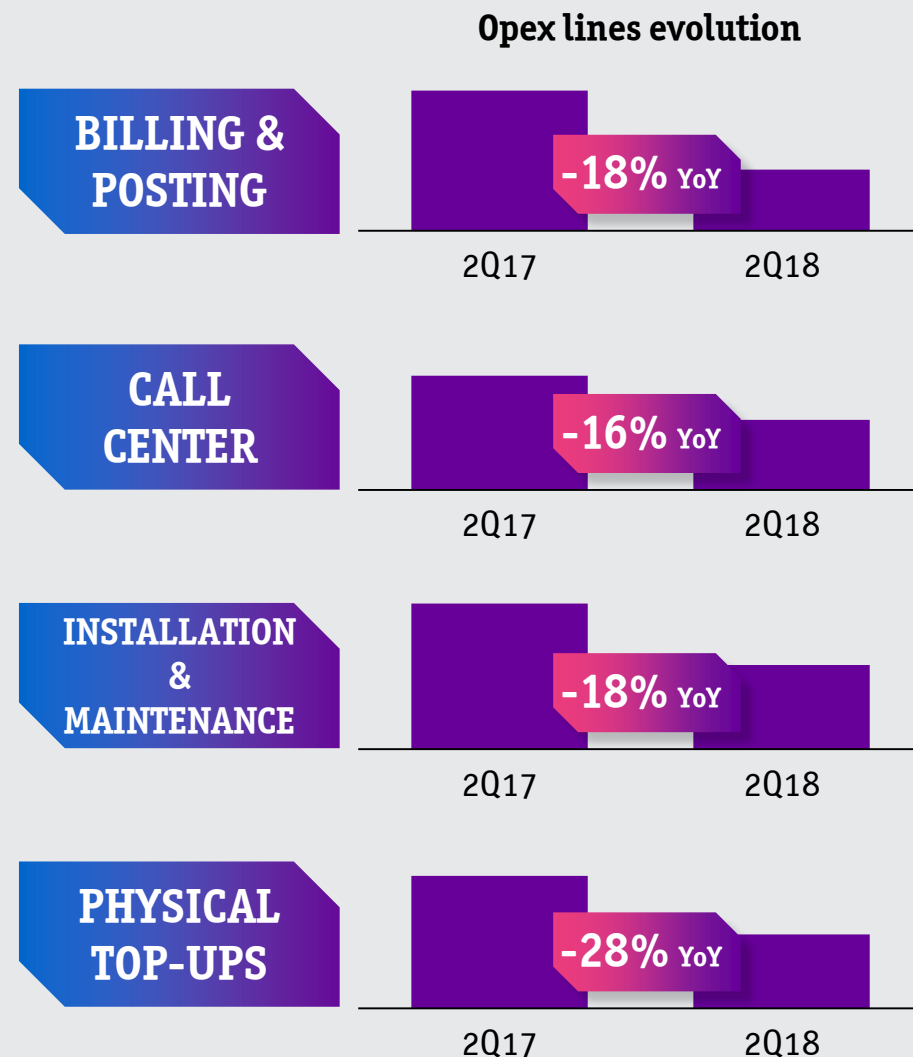


5.2% of total Opex
Credit and collection actions leading to **YoY decrease in provisions for bad debt**

1- Excludes the following non-recurring effects: 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; 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.

Positive evolution of main digitalization KPIs leading to double-digit reduction in important cost lines

Fronts	KPIs	2Q17	2Q18
Fostering sales and top-ups through digital channels	_ E2E Online Fixed B2C sales	← +36% YoY →	
	_ % of digital top-ups	18%	22%
Enhanced customer care experience	_ Unique users of Meu Vivo	10MM	15MM
	_ Call center calls	← -25% YoY →	
More efficient and friendly payments & collection	_ Penetration of e-billing	30%	49%
	_ Digital credit scoring	56%	>60%
Robust IT and improved technical support	_ % PoS in Full Stack	-	50%
	_ % digital technical support	-	18%

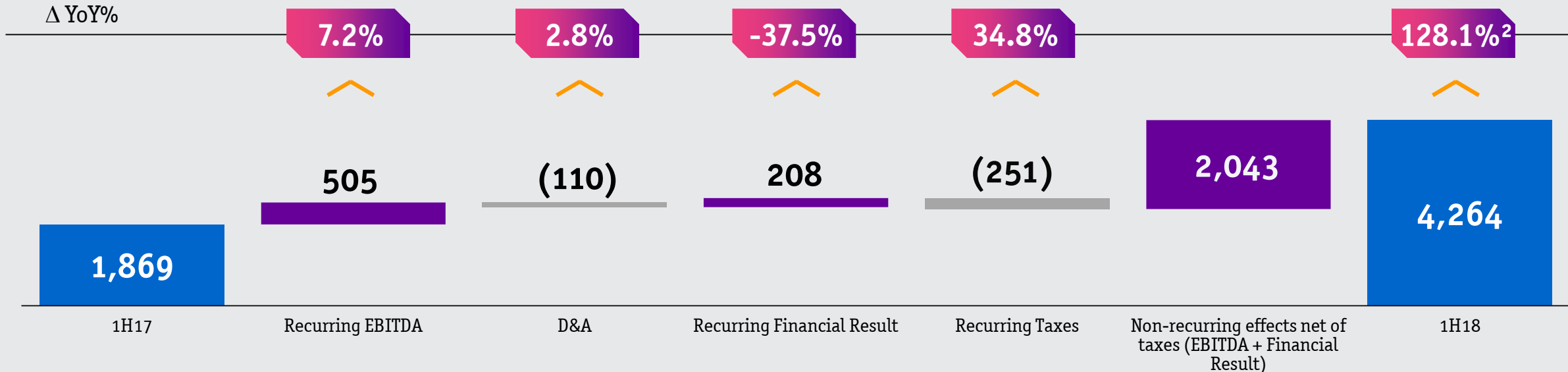


Non-recurring effects registered in 2Q18 driving **expressive net income increase in 1H18**

1H18 Net Income | R\$ Million and % YoY

REPORTED (CONSIDERING IFRS CHANGES¹) | R\$ Million

Δ YoY%



MAIN HIGHLIGHTS

EBITDA

Benefited by **mobile revenue evolution** and **cost control** achieved through **digitalization initiatives**

NON-RECURRING EFFECTS

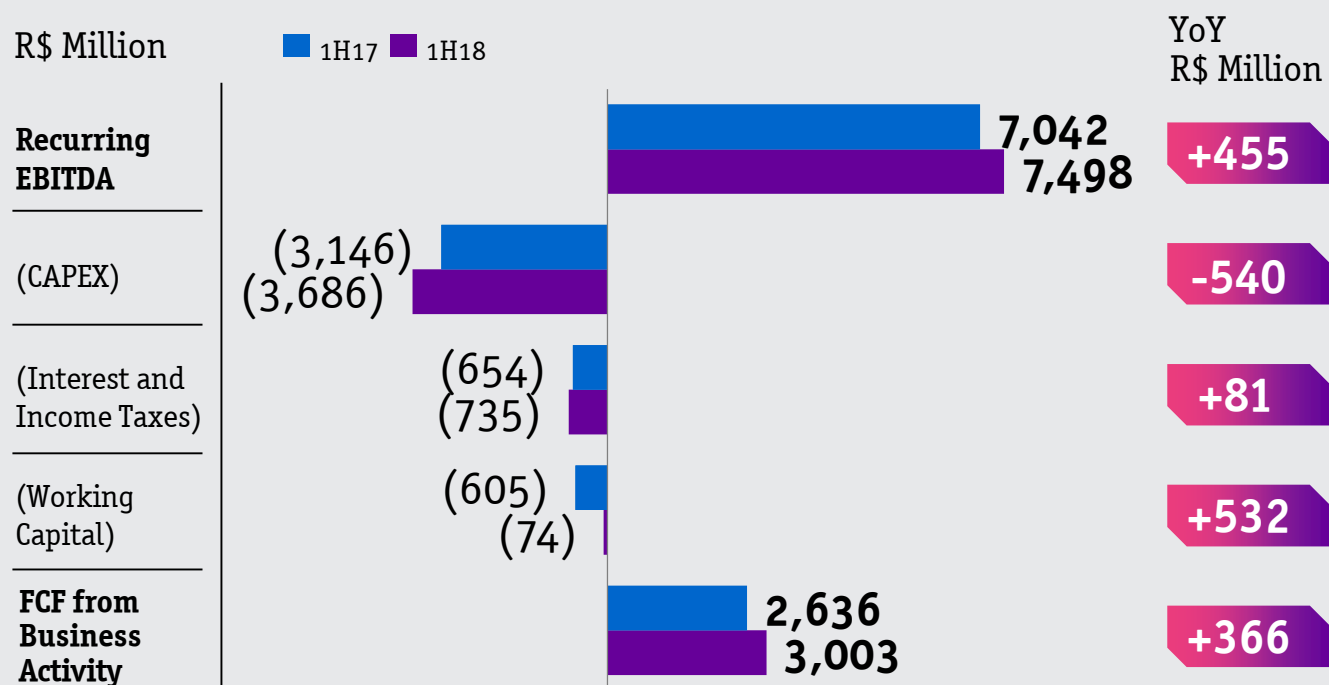
Positive impact of **R\$1,450.7 million in EBITDA** and **R\$1,645.0 million in Financial Result** from one-offs registered in 2Q18

TAXES

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

Increase of 14% YoY in Free Cash Flow in 1H18 even with higher level of investments in the year

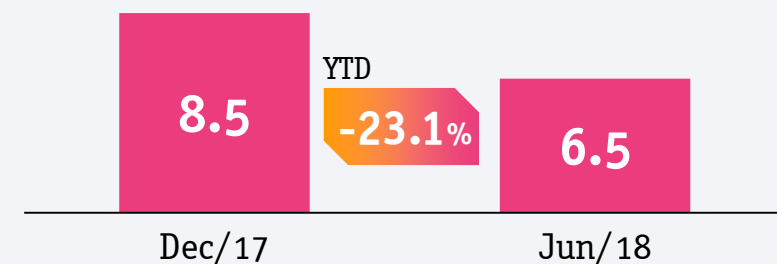
Free Cash Flow¹ generation expanding double-digit due to strong results and strict financial discipline



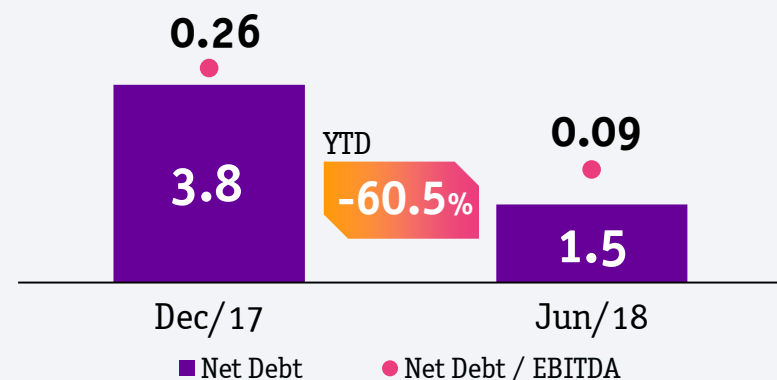
Shareholder remuneration in 2018	Payment Date	Gross Amount	R\$/share (PN ³)
Payment of R\$4.6 bn in dividends/IOC already declared ² :	Aug 21, 2018	R\$2.4 bn	R\$1.48
	Dec 11, 2018	R\$2.2 bn	R\$1.34
	Total	R\$4.6 bn	R\$2.82

Lower indebtedness allowing us to maintain robust financial profile

Gross Debt | R\$ billion



Net Debt⁴ | R\$ billion



In summary

Sustained solid revenues and net adds performance in key segments: postpaid, mobile data, FTTH and IPTV



Continued EBITDA expansion as we keep capturing benefits from **digitalization and efficiency initiatives**



Free cash flow consistently growing double-digit even with higher level of investments



Effects of IFRS 15 on our 2Q18 results

R\$ million	Pro forma ¹		IFRS Adjustments	Reported ¹	
	2Q18 w/o IFRS	Δ% YoY		2Q18 w/ IFRS	Δ% YoY
Net Operating Revenue	10,817.8	1.1%	5.6	10,823.4	1.2%
Net Service Revenue	10,396.4	-0.4%	-51.2	10,345.2	-0.9%
Net Mobile Service Revenue	6,388.7	1.9%	-51.2	6,337.5	1.0%
Net Fixed Revenue	4,007.7	-3.7%	0.0	4,007.7	-3.7%
Net Handset Revenue	421.5	60.5%	56.7	478.2	82.1%
Recurring Operating Costs	-7,085.4	-1.2%	14.7	-7,070.7	-1.4%
Personnel	-943.3	3.0%	-4.0	-947.3	3.4%
Commercial Expenses	-2,310.6	-2.0%	18.8	-2,291.8	-2.8%
Recurring EBITDA	3,732.4	5.8%	20.3	3,752.7	6.4%
Recurring EBITDA Margin	34.5%	1.5 p.p.	0.2 p.p.	34.7%	1.7 p.p.
Net Income	3,152.9	261.2%	13.4	3,166.3	262.7%

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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