

Telefônica

vivo

Results **1Q18**

.....

Investor Relations
Telefônica Brasil S.A.

April, 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

1Q18 HIGHLIGHTS



Positive Revenue Evolution

Total Revenues

+1.6%
YoY

Mobile Data & Digital Services

+17.4%
YoY

Fixed UBB

+22.5%
YoY

Sustainable Increase of Margin and Profitability

Operating Costs

-1.2%
YoY

EBITDA Margin

35.0%
+1.8 p.p. YoY

Free Cash Flow

+48.1%
YoY

Irreplicable Position with Unique Assets

Postpaid Net Adds

+727k
+67.4% YoY

FTTH Net Adds

+122k
+70.9% YoY

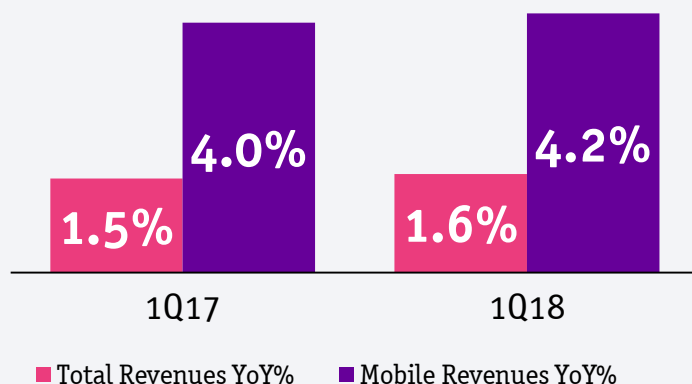
Cities with 4G+

364
+250 in 1Q18

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.

Solid revenue evolution and consistent EBITDA expansion leading to **strong Operating Cash Flow generation in the quarter**

Revenues

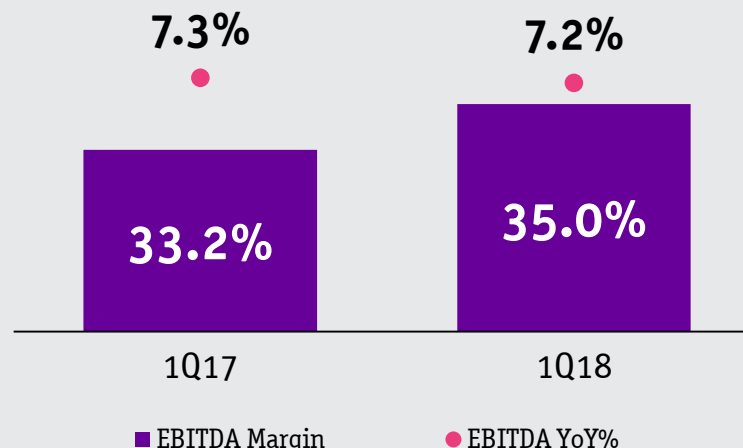


Total revenue expansion based on solid operating performance in high-end segments

Mobile revenue increase on the back of sustained growth of MSR and double-digit increase of handsets

Strong, double-digit performance of UBB partially offsetting fixed voice and DTH decline

EBITDA

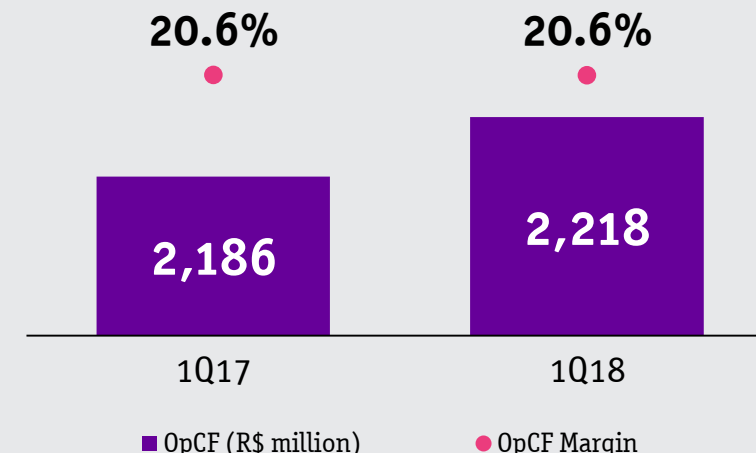


Recurring Opex reduction for the ninth quarter in a row benefited by digitalization and simplification initiatives

High single-digit EBITDA growth, consistent with recent performances

Highest 1Q EBITDA Margin since 2013 (+1.8 p.p. YoY)

OpCF



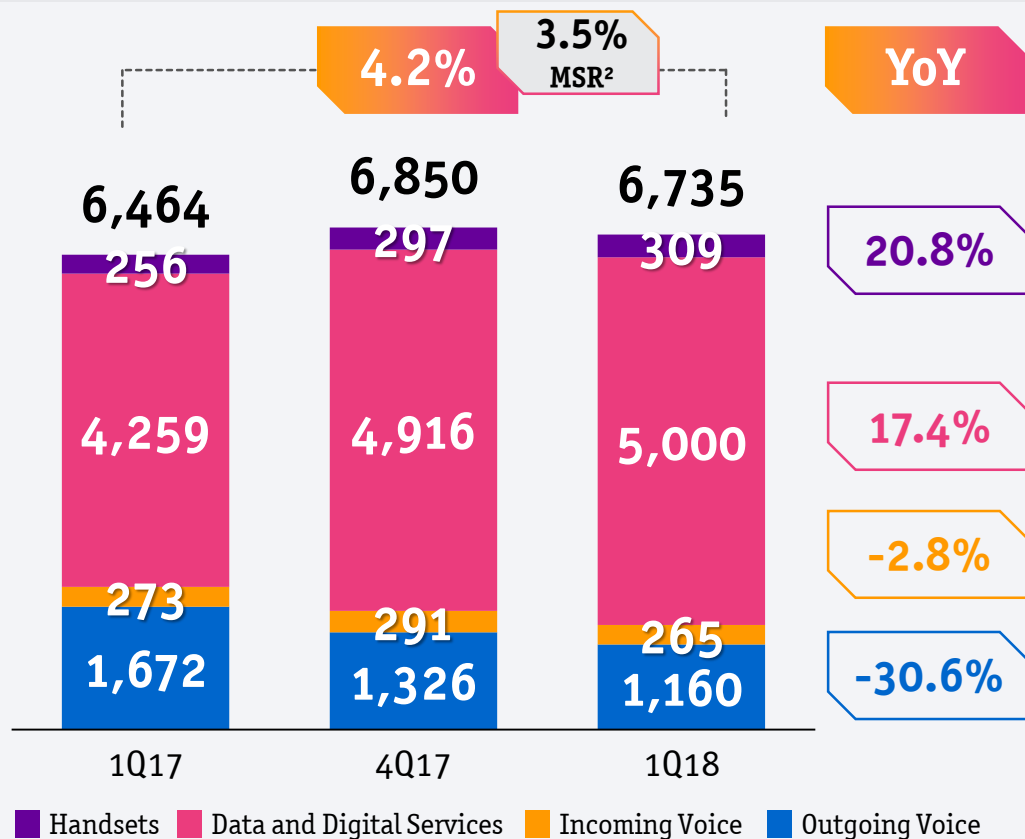
R\$1.5 billion Capex in 1Q18 (+16.5% YoY) leading to **14.4% of Capex/Revenues**

Another quarter of strong Operating Cash Flow generation, reaching R\$2.2 billion (+1.5% YoY)

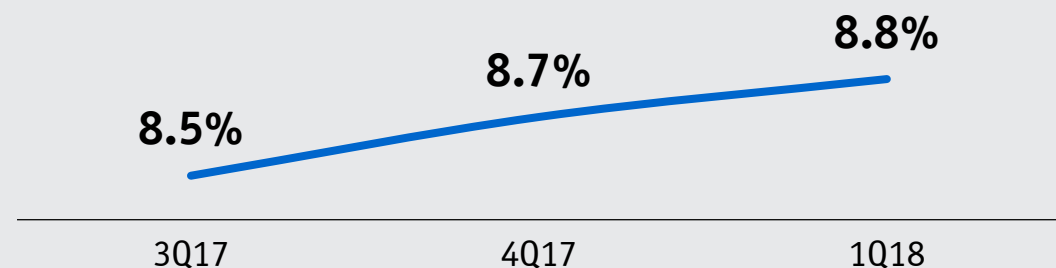
As a result, the OpCF Margin for 1Q18 stood at 20.6%, in line with the strong performance in 1Q17

Positive mobile revenues evolution on the back of solid performances of mobile data and handset sales

Mobile Revenues¹ R\$ Million

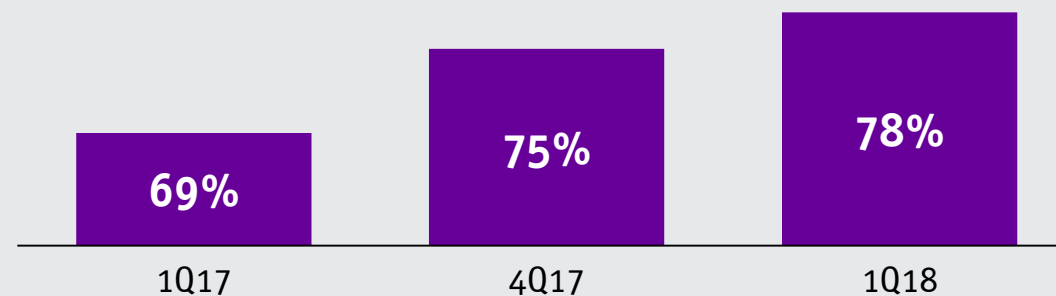


Postpaid revenue³ continues to improve sequentially YoY



Data and digital services continue to gain traction

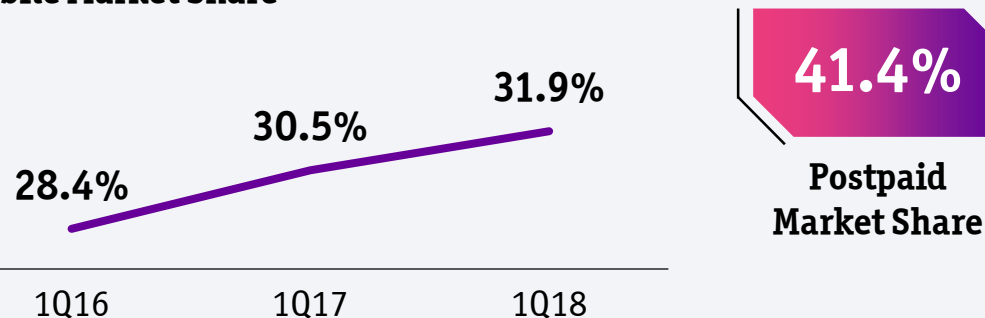
% Mobile Data and Digital Services over MSR



Strong customer mix and unrivaled value proposition leading to **market share expansion and improving ARPU**

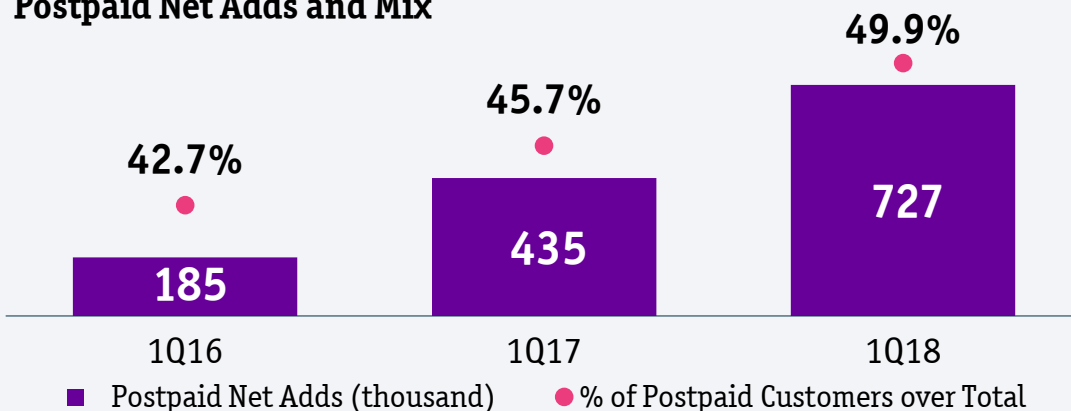
Indisputable leadership in the mobile market

Mobile Market Share



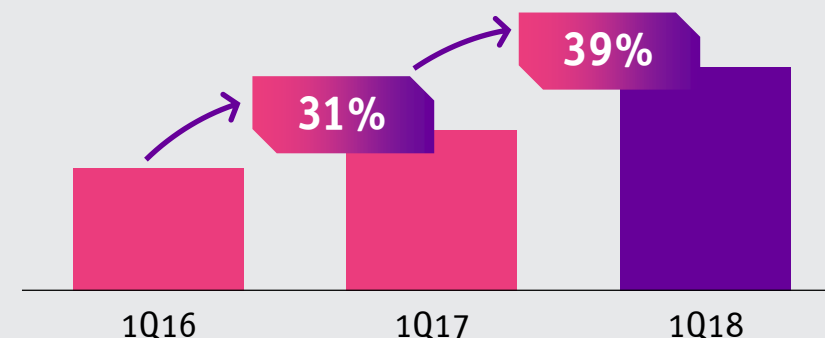
Strongest level of 1Q postpaid net adds since 2014

Postpaid Net Adds and Mix

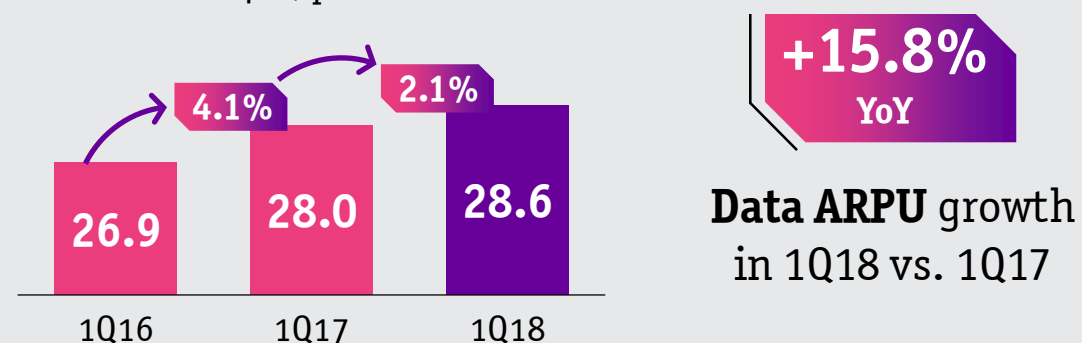


Unrivaled value proposition contributing to improve mix and ARPU

Net Migration of Prepaid to Hybrid



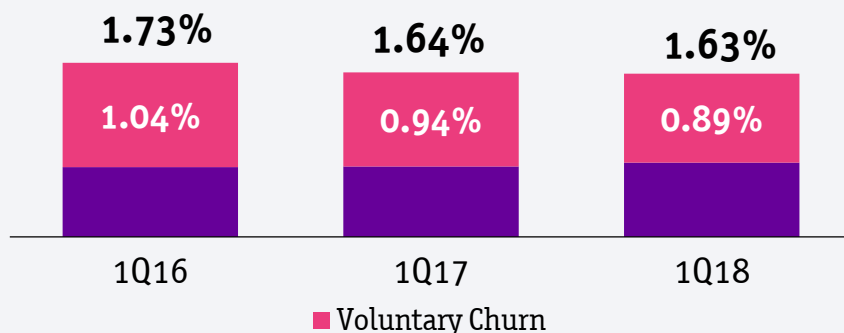
Total ARPU | R\$ per month



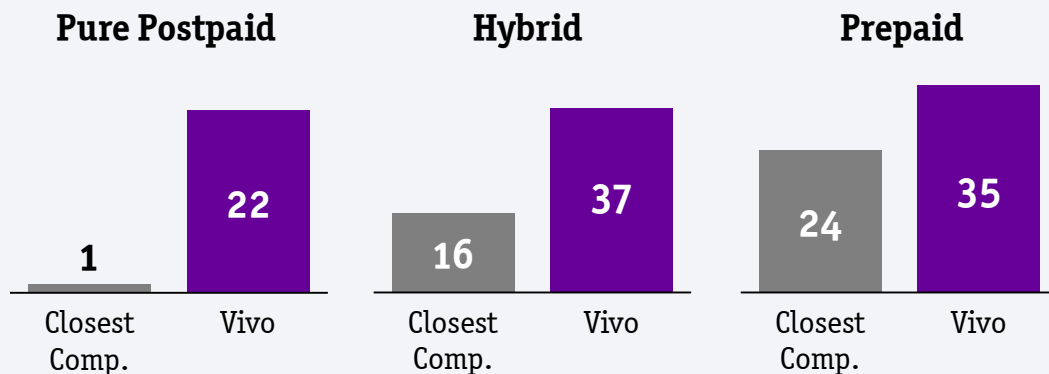
Vivo combines a unique set of assets to secure **solid differentiation and monetization**

Differentiation is proved by reducing churn and superior satisfaction

Postpaid Churn



Superior NPS¹ in all customer segments



Sustaining monetization across all customer segments in 1Q18

Pure Postpaid

Revenue balance of **upgrades vs. downgrades improved 60% YoY**

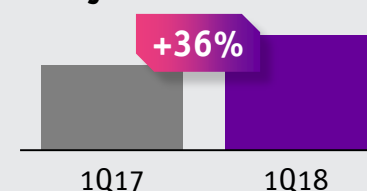


Hybrid: higher adoption of new portfolio

New Hybrid portfolio launched during 1Q18 following “**more for more**” strategy



Hybrid Net Adds



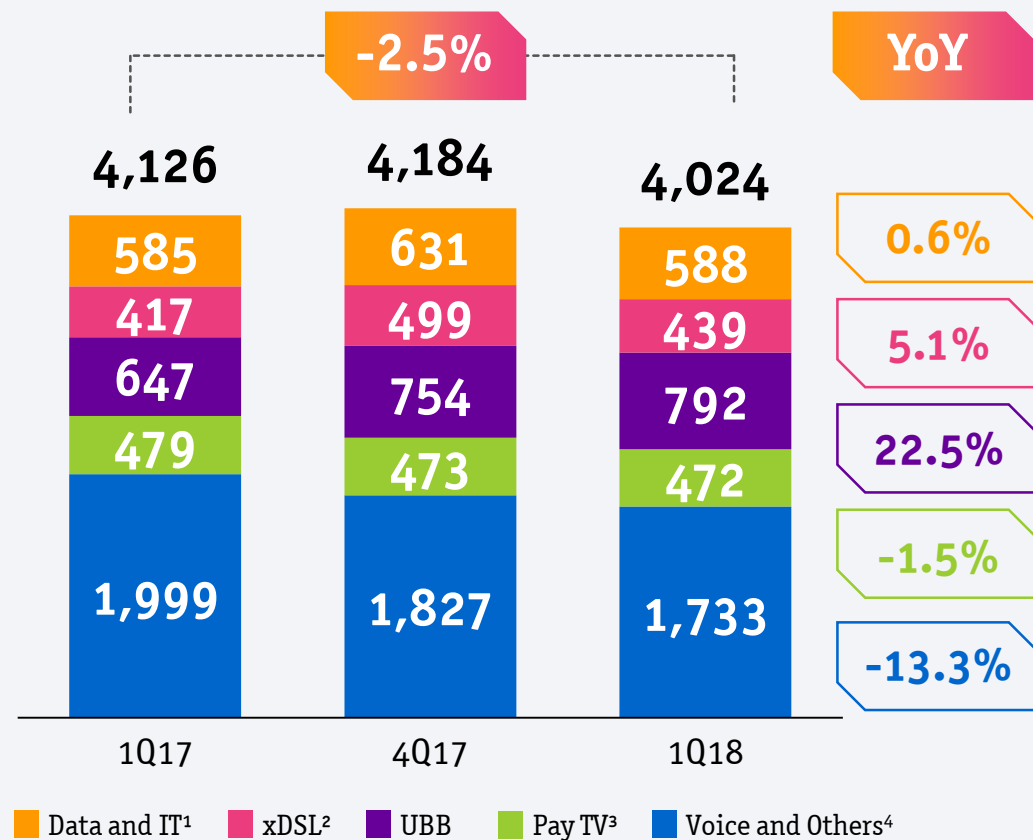
Prepaid: Community effect based on data sharing²

1 Petabyte of data shared in 1Q18, **+46% QoQ**

≈6.2 million data sharing transactions in 1Q18 (**+32% QoQ**), increasing **Meu Vivo app adoption**

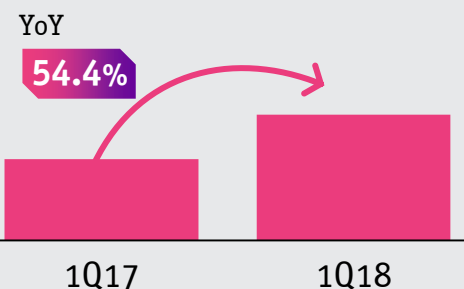
UBB and IPTV continue to grow at an accelerated pace, reducing the impact of contractions in voice and DTH

Fixed Revenues R\$ Million

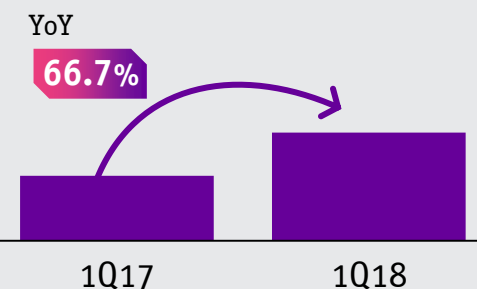


Key revenue lines maintaining impressive performance

FTTH Revenue | R\$ million

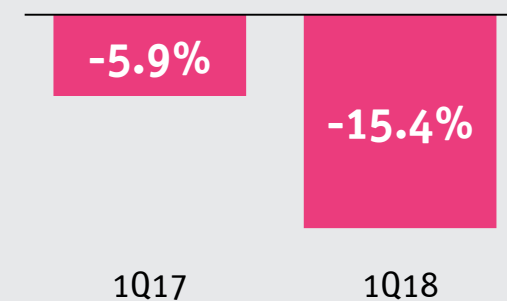


IPTV Revenue | R\$ million

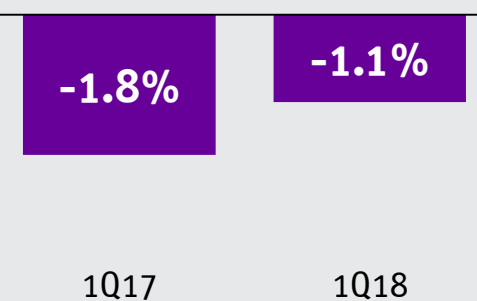


Performance of fixed revenues affected by our strategic decision to deprioritize the DTH business

DTH Revenues | YoY%



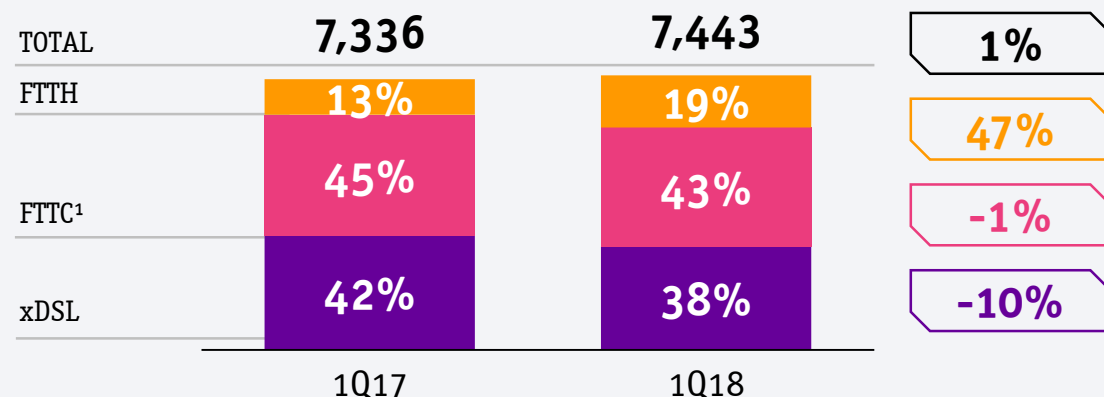
Fixed Revenues ex-DTH Revenues | YoY%



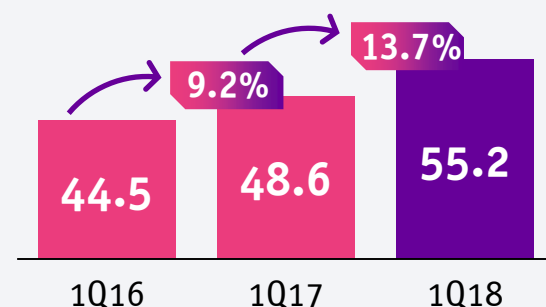
Increased commercial activity in fiber driving **ARPU growth and improved customer mix**

Broadband Accesses and ARPU

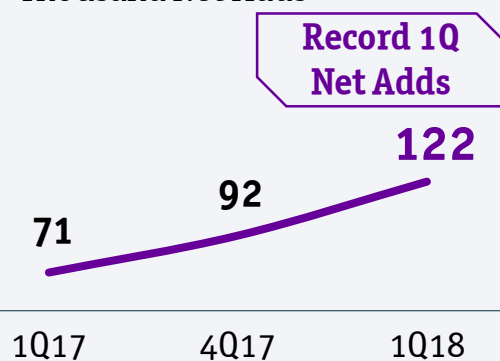
BB Accesses | Thousand



BB ARPU
R\$ per month

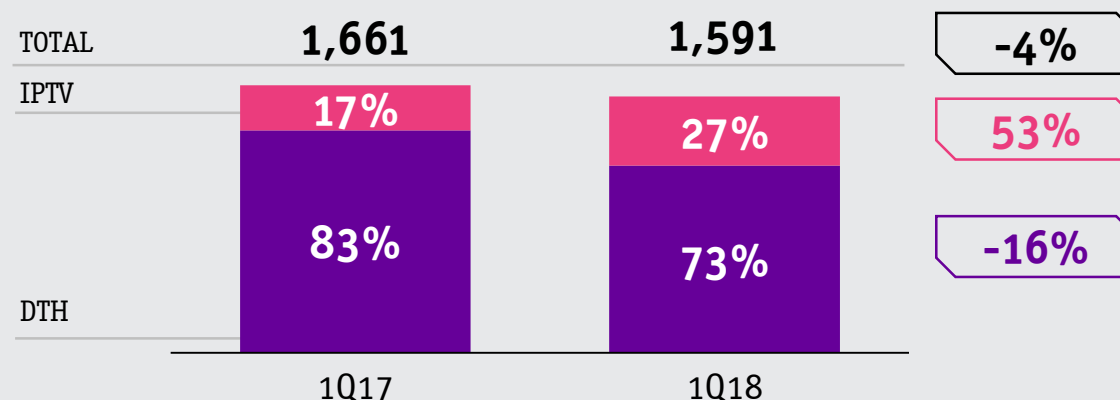


FTTH Accesses
Thousand Net Adds

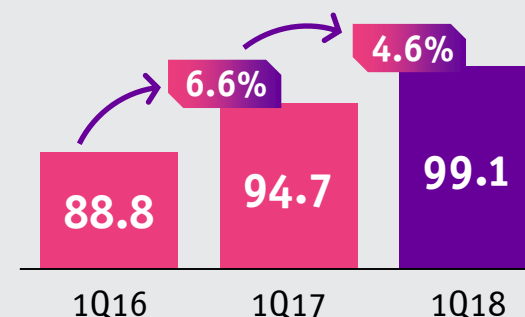


Pay TV Accesses and ARPU

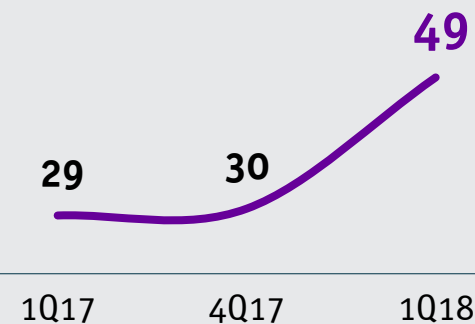
Pay TV Accesses | Thousand



TV ARPU
R\$ per month



IPTV Accesses
Thousand Net Adds

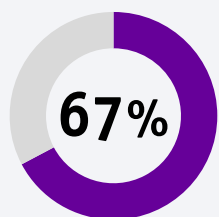


Clear growth opportunity in UBB, with encouraging trends for Vivo due to matchless track record in FTTH

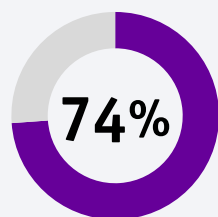
Outstanding track record in FTTH, especially in cities launched in 2017

UBB (>34Mbps) Market Share | Feb/2018

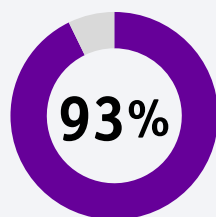
Hortolândia/SP



Volta Redonda/RJ



Itabuna/BA

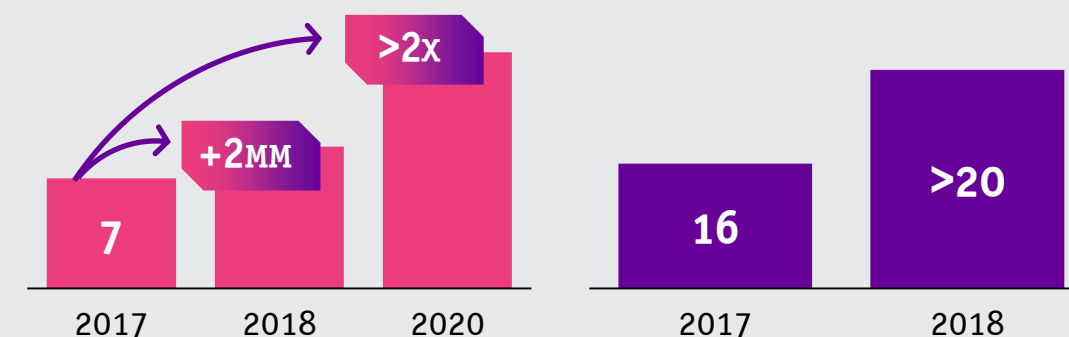


- _Average take-up of 30% over installed capacity
- _Launch time of new cities **reduced by 30% in 2017**
- _Main FTTH player in LatAm, having deployed the **largest number of HPs in the region in 2017**
- _Strong take-up of IPTV in higher income neighborhoods

Ambitious targets set for 2018, to continue capturing unique UBB opportunity

FTTH HPs | Million

New FTTH Cities



- _Relevant incremental revenues as of 2019
- _Focus on **higher-end FTTH expansion and increased penetration**
- _20% increase in the construction of **vertical structures** in 2018
- _IPTV service to be offered in all existing and new FTTH cities during 2018

Transforming customer experience through innovative digital channels and artificial intelligence

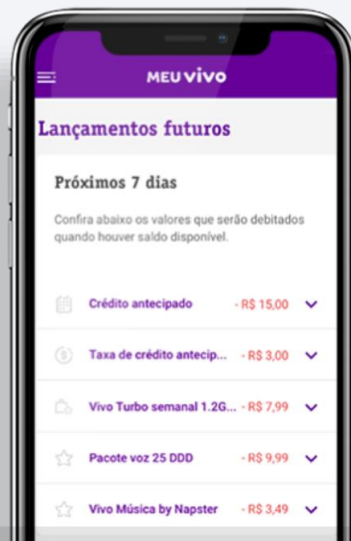
We continue to improve the Meu Vivo e-care app with the launch of new functionalities...



Data Sharing



Technical support and visit scheduling



Detailed bill



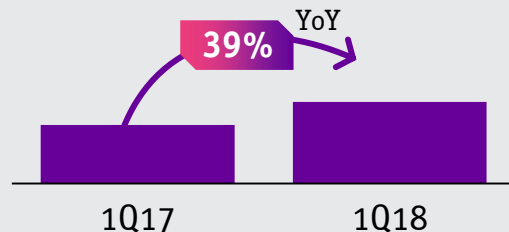
Future expenditures



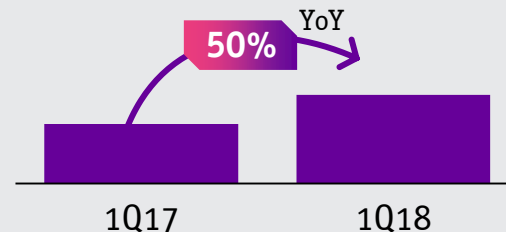
AURA
Artificial Intelligence

...that are contributing to higher usage and increased penetration

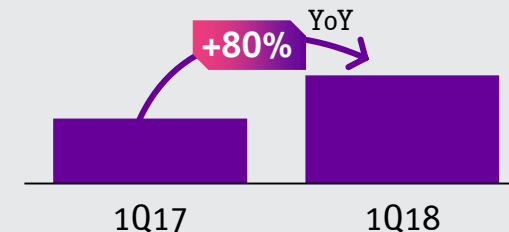
Mobile Meu Vivo | MM unique users



Fixed Meu Vivo | MM unique users



Meu Vivo Downloads | MM



Capex for the next years will be focused on the **expansion of Fiber, 4G and transformation of IT platforms**

Capex guidance for 2018-20 considers stable annual investment plan and additional envelope for Fiber

INVESTMENT PLAN

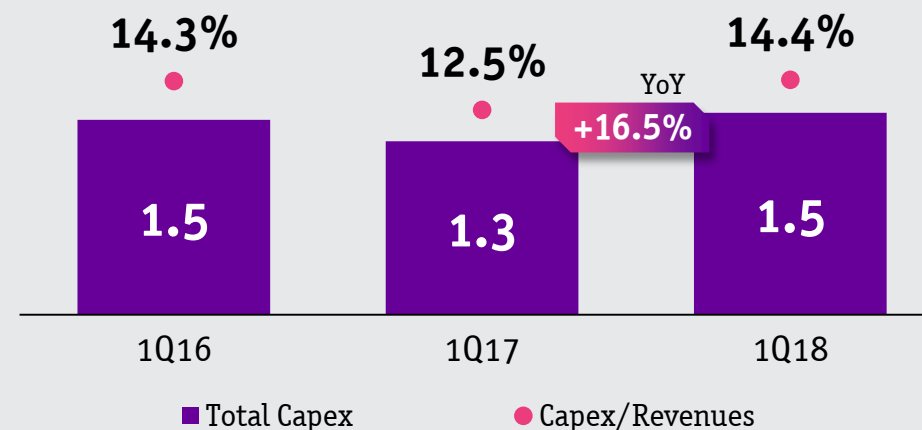
Up to
R\$ 24 Billion
in 2018-2020



FIBER ACCELERATION PROJECT

R\$ 2.5 Billion
Non recurring incremental CapEx
in 2018-2020

Capex
R\$ Billion



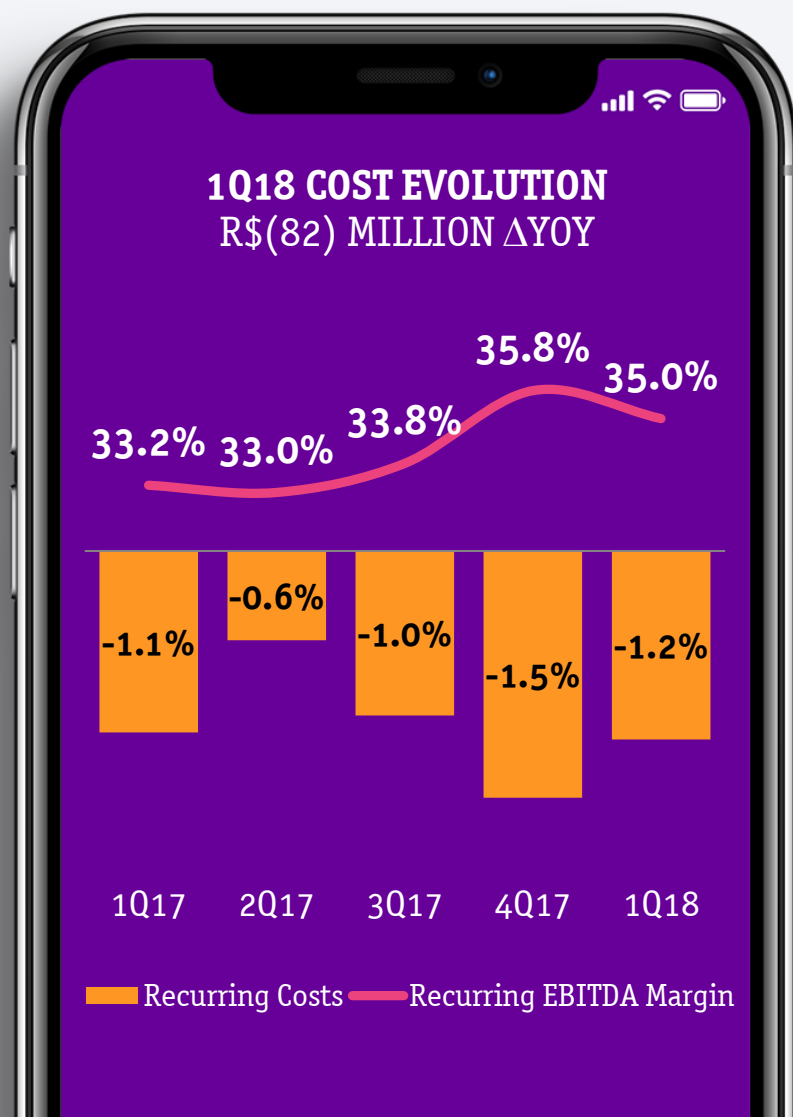
_Fiber: presence in **216 cities** (89 with FTTH), with IPTV already present in **65 cities**

_4G: coverage of **85%** of population (+14 p.p. YoY), with **4G+** already reaching **364 cities** (+250 in 1Q18)

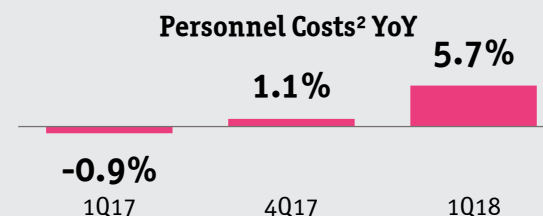
_12% YoY increase in the number of **fibered sites** in 1Q18

_IT: transformation to **full stack already in progress**, with the migration of the mobile customer base already underway

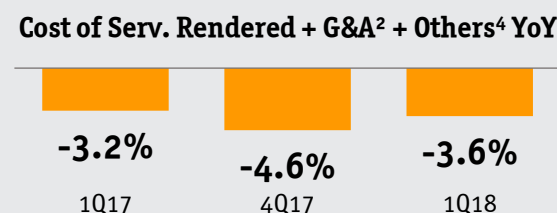
Reducing recurring costs¹ YoY for the 9th consecutive quarter



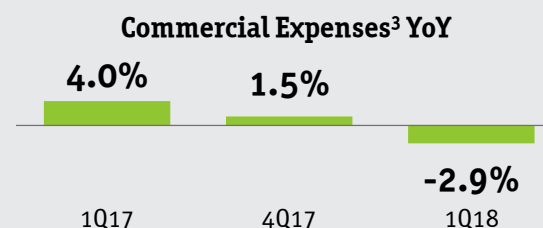
MAIN HIGHLIGHTS



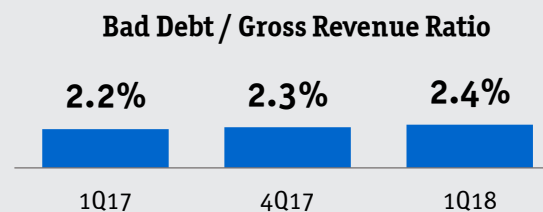
13.8% of total Opex
Increase due to **inflation and variable remuneration** (e.g. internal salesforce)



47.5% of total Opex
Interconnection tariff reductions
Costs with expansion of 4G and FTTH offset by lower **mobile content** and **regulatory taxes** costs

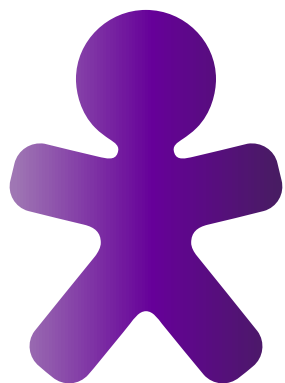


26.2% of total Opex
Digitalization initiatives impacting positively expenses with **commissioning and billing**, offsetting growth related to the base increase



5.6% of total Opex
Credit and collection actions leading to **stable evolution of bad debt/revenues**

Digitalization results are expressed by a **considerable evolution of KPIs in all fronts...**



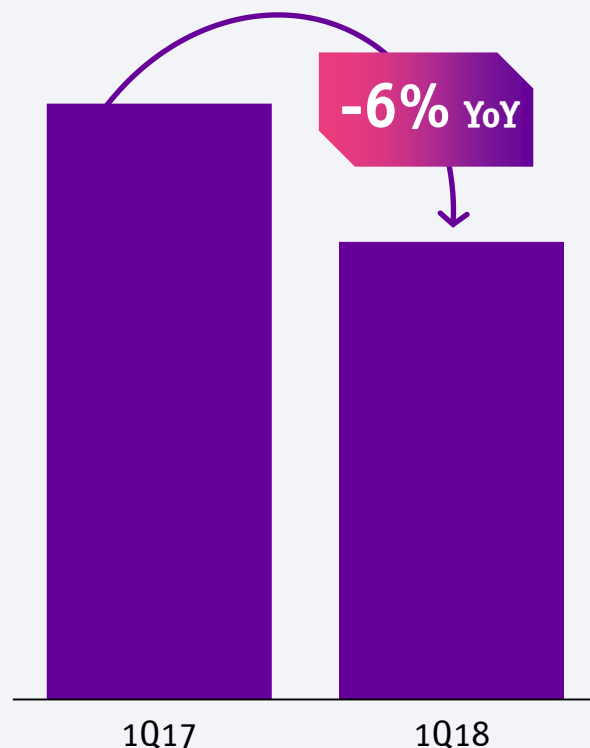
At least R\$1.2bn of annual gross Opex Savings by 2020 arising from digitalization

Fronts	KPIs	1Q17	1Q18
Fostering sales and top-ups through digital channels	_ E2E Online Fixed B2C sales	← +60%_{YoY} →	
	_ % of digital top-ups	18%	22%
Enhanced customer care experience	_ Unique users of Meu Vivo	10MM	15MM
	_ Call center calls	← -23%_{YoY} →	
More efficient and friendly payments & collection	_ Penetration of e-billing	26%	44%
	_ Digital credit scoring	≈50%	>60%
Robust IT and improved technical support	_ % PoS in Full Stack	-	15%
	_ % digital technical support	-	16%

...which are yielding **significant savings across key Opex lines**

Reduction of Opex within the digitalization perimeter is contributing to continued cost control

Opex within Digitalization Perimeter
Approximately 1/3 of Total Opex



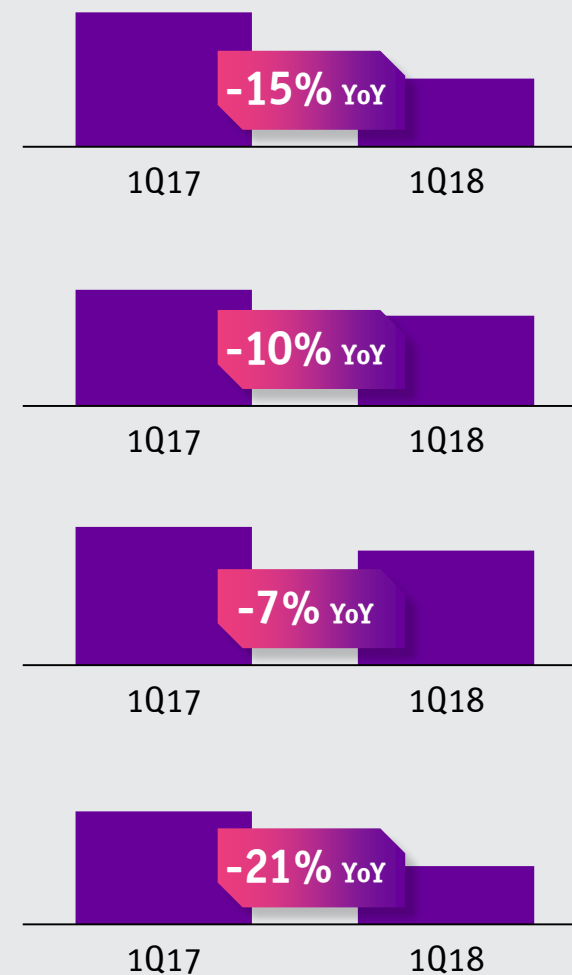
BILLING & POSTING

CALL CENTER

INSTALLATION & MAINTENANCE

PHYSICAL TOP-UPS

Opex lines evolution

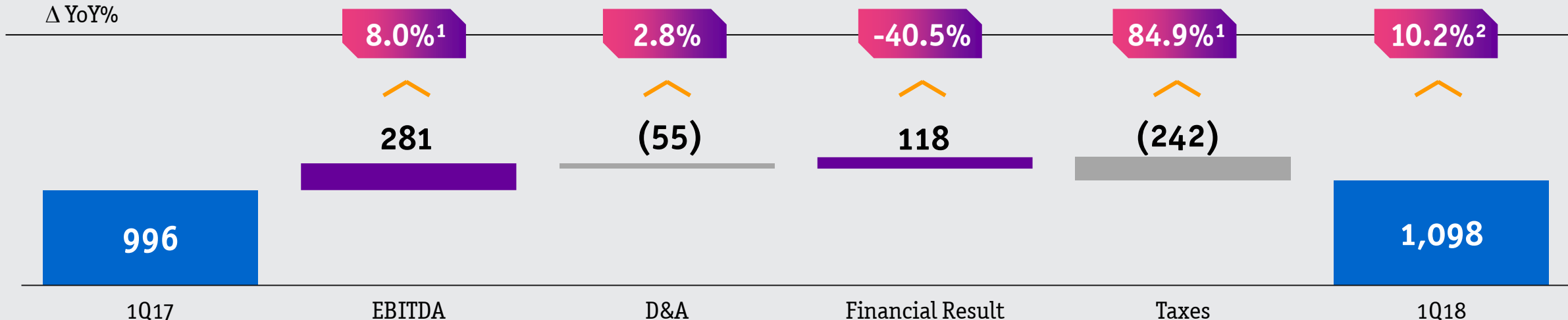


Strong EBITDA evolution and improved financial management leading to another quarter of double-digit growth in Net Income

1Q18 Net Income | R\$ Million and % yoy

REPORTED (CONSIDERING IFRS CHANGES) | R\$ Million

Δ YoY%



MAIN HIGHLIGHTS

EBITDA

Positively impacted by **revenues expansion** and **digitalization initiatives** which led to another quarter of cost contraction

FINANCIAL RESULT

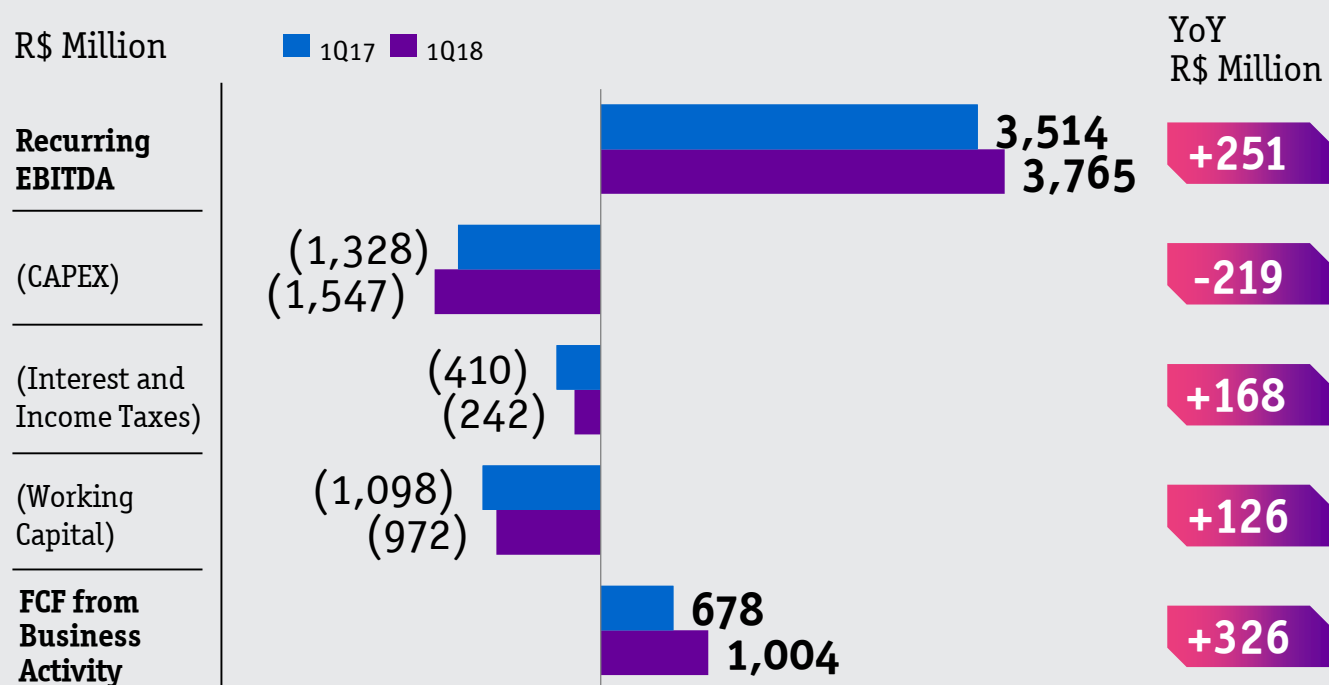
Positively impacted by **lower interest rates** and **average indebtedness** in the period

TAXES

Increase related to the **distribution of Interest on Capital in 1Q17** reducing the comparison base vs. 1Q18

Free Cash Flow growing 48% YoY based on strong EBITDA expansion and improved capital efficiency

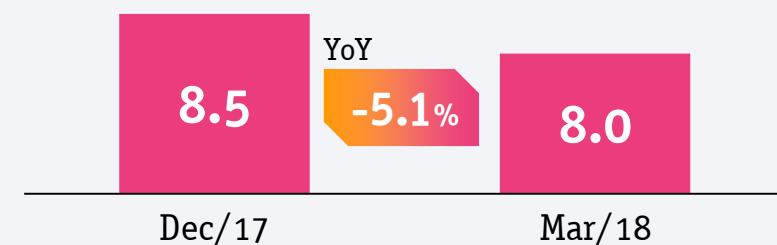
Another quarter of strong Free Cash Flow¹ generation with expressive improvements in all fronts



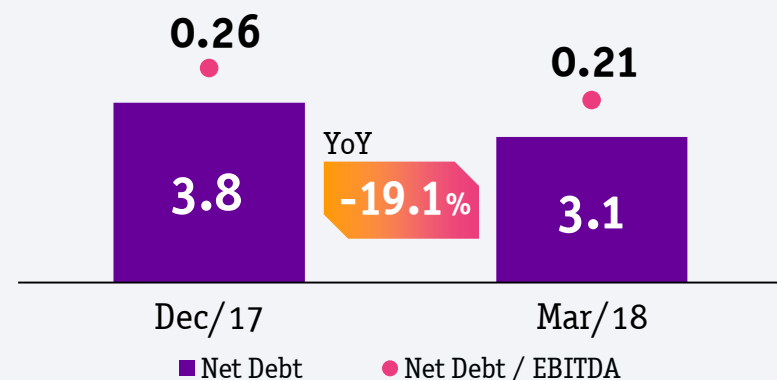
Shareholder remuneration in 2018	Payment Date	Gross Amount	R\$/share (PN ³)
Payment of R\$4.6 bn in dividends/IOC already declared ² :	Aug 21, 2018	R\$2.4 bn	R\$1.48
	Dec 11, 2018	R\$2.2 bn	R\$1.34
	Total	R\$4.6 bn	R\$2.82

Cash generation contributing to overall improvement of financial profile

Gross Debt | R\$ billion



Net Debt⁴ | R\$ billion



In summary

Revenue expansion boosted by strong performances of **postpaid** and **fiber** segments



Digitalization and **simplification** as the main drivers of **continued EBITDA expansion**



Expressive **double-digit growth of cash generation** while building unique positioning in FTTH



Effects of IFRS 15 on our 1Q18 results

R\$ million	Pro forma ¹		IFRS Adjustments	Reported ¹	
	1Q18 w/o IFRS	Δ% YoY		1Q18 w/ IFRS	Δ% YoY
Net Operating Revenue	10,759.1	1.6%	29.9	10,789.0	1.9%
Net Service Revenue	10,449.9	1.1%	(46.8)	10,403.1	0.7%
Net Mobile Service Revenue	6,425.8	3.5%	(46.8)	6,379.0	2.8%
Net Fixed Revenue	4,024.1	(2.5%)	0.0	4,024.1	(2.5%)
Net Handset Revenue	309.1	20.8%	76.7	385.9	50.8%
Operating Costs	(6,993.7)	(1.2%)	(0.8)	(6,994.5)	(1.2%)
Personnel	(964.2)	5.7%	4.9	(959.3)	5.2%
Commercial Expenses	(2,222.0)	(1.0%)	(5.7)	(2,227.7)	(0.8%)
EBITDA	3,765.3	7.2%	29.2	3,794.5	8.0%
EBITDA Margin	35.0%	1.8 p.p.	0.2 p.p.	35.2%	2.0 p.p.
Net Income	1,078.8	8.3%	19.2	1,098.0	10.2%

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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