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## 1Q21 RESULTS CONFERENCE

TIM S.A.

May 6<sup>th</sup>, 2021

### [Instructions]

**Operator** - Good morning ladies and gentlemen, welcome to TIM S.A. 2021 1<sup>st</sup> quarter results conference call.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. There will be a replay for this call on the Company's website.

After TIM S.A. remarks are completed, there will be a question and answer session for participants. At that time further instructions will be given.

We highlight that statements that may be made regarding the prospects, projections and goals of TIM S.A. constitute the beliefs and assumptions of the Company's Board of Executive Officers. Future considerations are not performance warranties. They involve risks, uncertainties and assumptions as they refer to events that may or may not occur. Investors should understand that internal and external factors to TIM S.A. may affect their performance and lead to different results than those planned.

Should any participant need assistance during this call, please press \*0 to reach the operator.

Now, I'll turn the conference over to the CEO, Mr. Pietro Labriola, so he can present the main messages for the first quarter of 2021. Please, Mr. Pietro, you may proceed.

**Pietro Labriola – TIM S.A. – CEO**

**Pietro Labriola (CEO)** – Good morning everyone, and thanks for attending our results conference call.

We started the year with high hopes that the worst of the pandemic was behind us. Unfortunately, already in February, the second wave started to hit some Brazilian cities and spread more broadly during March. Of course, this time, we were more prepared to sustain the impacts from more strict measures to control the spread of the virus. Also, the fact that cities implemented those measures in different moments of the quarter made a difference in how we were affected.

In all, the consequences of the second wave in our business were smaller than the first wave a year ago. Considering this, we are not altering materially any part of our strategic plan disclosed to you in our TIM Brasil Day. Neither the projects nor the targets are going to be changed. We are confirming our entire guidance!

The first quarter was marked by excellent execution. We accelerated our recovery started in the second half of last year, and both Revenues and EBITDA are growing more than in our recent results.

- We closed the quarter with Service Revenues growing more than 3% year-over-year;
- EBITDA came in very solid, up 4.5% versus last year. It summed more than R\$ 2 billion, representing a margin of almost 47%;
- As you probably saw last night, we reached an agreement with IHS, completing the deal for our FiberCo. A great deal for both companies;
- As I said, our Customer Platform plan is moving forward, and we are much closer to announce new partnerships for distance learning education and digital wallet;
- On the technology front, we reached more than 4 thousand cities covered with 4G and more than 120 sites in the Sky Coverage project. We also signed the agreement with the vendors for our Journey to Cloud project. These achievements show our commitment to: (i) improve the quality of our service; (ii) implement more cost-efficient solutions; and (iii) generate social and environmental positive impacts, as we detailed our ESG plan;



- Last but not least, this quarter TIM Live was appointed as the best broadband service in Brazil.

Detailing our revenue acceleration, we saw positive contributions coming from mobile and fixed services, with all lines posting better growth rates than the fourth quarter.

Mobile Service Revenue accelerated to grow 2.8% year-over-year, with Postpaid segment growth also speeding up to reach almost 4%. MSR is also receiving the contribution of Customer Platform projects, and this is the second quarter that we book revenues from this new stream. In this quarter, it summed R\$ 17 million. In parallel, Fixed services are also growing faster, up by 12%, with a solid contribution from TIM Live of more than 20% year-over-year. ARPU improvements in all segments are a significant driver for both Mobile and Fixed accelerations.

The key element for our mobile recovery amid the second wave of the pandemic is the ability to play our game of Volume-to-Value. Despite having stores closed across the country impacting our commercial activity, our mobile ARPU grew almost 7% year-over-year, with postpaid and prepaid contributing positively to the performance.

We expect to improve even further our prepaid dynamics. In the first quarter, we increased the participation of e-recharges to 55% of the total and accelerated the adoption of TIM+ Vantagens advantage program. In March, prepaid recharges were slightly positive versus last year, and in April, they are up by 9%.

For postpaid, Churn reduction was a highlight, once again. At the same time, we continue to differentiate our offers with the OTT marketplace and try to monetize data consumption with a "More for More" approach.

Still in the mobile arena, but now talking about new initiatives under Customer Platform, our projects are starting to bear fruits. Out of the R\$ 17 million in revenues, R\$ 11 million were generated by financial services, and R\$ 6 million were generated by mobile advertising. The latter was driven by the evolution in TIM Ads and Informa TIM platforms. Besides data rewards for video ads, we are working on leads generation, surveys, and app installs. In the second quarter, we expect even more, after the launch of TIM Fun, under our partnership with Play2Pay, and TIM News with Icaro.



Talking about the future, the Customer Platform roadmap is full. Also in the second quarter, we expect to sign an MOU with an e-learning platform, and our digital wallet negotiations are speeding up, so we expect news by the end of the quarter. This time, we either manage to bring other telcos on board, or we do it alone. On Health, we are starting the first negotiations, so it will be something for the third quarter.

Changing gears and moving to the fixed services. It is no surprise that TIM Live's consistent performance, combining ARPU and customer base growth, produced solid results in the past years, and it's no different this quarter. Additionally, we are developing the connected house concept to bring more innovation to our clients and sell intelligent devices.

Regardless of the difficulties imposed by one year of pandemic, we managed to keep growing our coverage, reaching 3.5 million homes passed with fiber, up 40% against last year.

This is a remarkable achievement, but we believe we can do more. That is why TIM is partnering with IHS in the FiberCo project. As we've been saying from the start, this deal has an industrial orientation, different from other deals you can find in the market.

Summarizing the deal, the FiberCo will receive TIM Live's last-mile network in FTTH and FTTC, and TIM will hold 49% of the capital of the new company. TIM will drive the network's rollout, but the fiber will be open to other players to rent. The FiberCo was valued at 21 times in EV/EBITDA multiple, and TIM will receive R\$ 1 billion in proceeds from the transaction.

As a consequence of the deal, we will deconsolidate a large portion of TIM Live's CAPEX, and even if new costs emerge from the last mile rent, the net effect will generate a positive contribution to free cash flow.

Maintaining our discussion on infrastructure developments, I'd like to remark that it was not only the broadband coverage that grew solidly despite the challenges of the moment. Mobile coverage also expanded soundly: 17.5% more cities covered with 4G, 27% more in 4.5G, more than 40% growth in cities covered by 700Mhz, and more than 120 sites within the Sky Coverage project to cover remote areas.

But network developments didn't stop there. We are preparing our network for Oi's assets integration and planning the 5G rollout. In this context, Massive MIMO rollout, Site Modernization, and the Network Sharing Agreement with Vivo play a crucial role in the next steps of our infrastructure plan.

Before moving to IT evolution, I wanted to remark that despite 5G DSS being the "5G of marketing", it has its importance, and we know how to play this game. That is why we are ahead of the competition on this front as well. Today, we have the broadest coverage in this technology, with 19 clusters of cities and approximately 150 DSS stations. Also, our customers access the 5G DSS technology more frequently than our competitors' clients. And to complete the 5G topic, TIM was the first Brazilian telco to test 5G standalone with commercial equipment reaching speeds above 1.8 gigabits per second.

Now on the IT front, I'd like to remark TIM's pioneer move with the support of Microsoft and Oracle to be the first operator and one of the first companies in Brazil to migrate 100% of its data center to the cloud. We already detailed the project during our investor day, but I want to use this as an example of the importance of having an integrated approach to ESG. In this project, we combine innovation, cash-flow focused efficiency, and positive environmental impact to take TIM to the forefront of IT solutions.

It is essential to highlight this is not the only example. When we analyze the outputs of our digital transformation in caring services and how they positively impact NPS in different segments, it is becoming clear that technology will help us deal with one of the most pressing ESG challenges for a telco in Brazil, its customer satisfaction.

One of the beauties of digital transformation is its dual effect: at the same time, it supports customer experience, but it also helps to control and reduce costs. We are still in the middle of the process, so we have a long way to go, but this past year digitalization speeded up, for sure one of the consequences of the pandemic. E-recharges, e-bills, e-payments, e-sales, and app utilization, all presented double-digit increases versus 2020. On top of that, PIX, which was launched 6 months ago, already has more than 2 million TIM invoices paid.

In this context, our OPEX continues to be under control, rising well below inflation. It went up just 1.7% versus 2020. Bad debt continues to show solid performance, but as we mentioned in the fourth quarter, the main structural changes were done, improvements will be more incremental than transformational, and we need to account that we have more than 60% of our revenues in postpaid.

The combination of revenues going up and costs under control is well-known, it produces EBITDA growth. In our case, a solid 4.5% year-over-year, and it is the 19<sup>th</sup> quarter with positive EBITDA growth. Additionally, it also generated margin expansion to reach 46.6% and a Net Income rise of almost 60%.

As I mentioned earlier, we are preparing our network for Oi's assets integration and resuming projects initially scheduled for 2020, so our investments totalized R\$ 1.3 billion, growing more than 40%.

Before I conclude my presentation, I'd like to highlight that the mobile sector is being reshaped by the Oi acquisition and spectrum auction on the other side. Both are expected to occur at a certain point in the third quarter.

On the Oi Mobile deal, it is worth pointing that the transaction's approval process is going according to the expectation. We have completed all the necessary steps with Cade and Anatel for both to conduct their analyses. Now, we must wait.

As for the auction, we continue to view it as having a well-designed structure, which will privilege investments to serve customers in the best manner. As we stated before, TIM's focus will be the 5G frequencies. We are waiting on TCU's contributions to complete the details of our strategy for the auction.

Ending my comments, I want to remark on the sound results we are delivering amid a very complex environment, which confirms the company's positive momentum and solid fundamentals. So, we will continue to work on:

- Mobile growth acceleration with the expectation that vaccination can represent an upside;
- Implementation of the deal with IHS to grow further our FTTH business;

- Continue developing our Customer Platform strategy to increase its contribution;
- Transforming our infrastructure preparing the company for the future;
- And last, maintaining the focus on profitability and financial discipline.

Thank you!

We will now open the floor for questions. Please, operator...

**Operator** – Thank you, Mr Pietro now we will begin the Q&A session.

## **QUESTIONS AND ANSWERS**

**Operator** – The first question comes from Mathieu Robilliard from Barclays. So, Mr. Mathieu, you may proceed.

**Mathieu Robilliard (Barclays)** – [No response]

**Operator** – The next question comes from Leonardo Olmos from UBS. So, Mr. Leonardo, you may proceed.

**Leonardo Olmos (UBS)** – Well, I have two quick questions, the first one about the FiberCo sale to IHS. Great deal, first of all, congratulations! I want to know if you could share with us the EBITDA that this operation was generated so we can understand a bit about the multiple. And if there are any long-term clauses in this deal such as there are now. Thank you.

**Adrian Calaza – TIM S.A. – CFO**

**Adrian Calaza (CFO)** – Okay. Hi, Adrian here. So, you know that it's not easy to disclose those kind of information in terms of EBITDA. But I think that since Pietro mentioned the multiple that we arrive with the enterprise value that we are considering, you can do the math and it's almost pretty easy. Then, Pietro

mentioned the 21x enterprise value over the 2020 pro forma EBITDA. So, the thing here is, that's the 2020 EBITDA in terms of pro forma, clearly what we had, it's a very challenging business plan but is the internal business plan that we have even before the transaction.

What I'm trying to say is probably in the future we can do more of what we put in the business plan, because at the end, that's the goal of closing these deals and especially with IHS being an industrial partner in this case, because remember, Leonardo, we always said that this for us was not a financial deal. It's more an industrial deal due to the fact that we wanted to be in the business of fixed ultrabroadband. It's the opportunities that the market will have in terms of new connection of FTTH in the next three years. Up to 11 million of new collections, you can understand that there is a lot of space for many players and we want to catch a portion of that opportunity.

So, internally with the actual situation could have been a little bit difficult, because this will mean additional Capex being the fixed ultrabroadband much more capital intensive than the mobile.

So that's the first goal of the FiberCo project that then yes, of course, we can also mention the more financial side of the transaction. And then you arrive there to that multiple 21x EBITDA. But it's not something that for us is the key, the key for us of this project is industrial.

Then of course this secondary that we mentioned will help us in order to finance the deal with Oi. Yes, of course, but we should, that the first of all for us for this project was industrial.

I think that you had a second question, Leonardo?

**Leonardo Olmos (UBS)** – Yes, thanks for that. And thanks for the answer. The second question is related to the agreement you made with Telecom Italia, I understand that you have tested seven other companies to provide the foreign submarine cable, the foreign connections.

I just wanted to say, before this deal, which company were you using? What were you doing before that to get access to so far internet from Brazil?

**Adrian Calaza (CFO)** – I don't know if I got your question, it is regarding the contract that we signed with Sparkle?



**Leonardo Olmos (UBS)** – Yes, yes. That's it. My question is that you signed the contract with Sparkle, right? For 2021 until 2023. My question is, before that, which company you're using? What was the capacity and how much were you paying?

**Vicente Ferreira – TIM S.A. – Head of IR**

**Vicente Ferreira (Head of IR)** – Hi, Leonardo. This is Vicente speaking. So, this information was disclosed yesterday in our communication. All the information available about this contract with Sparkle, as it's related party, is public. I will pass the floor to Mr. Alberto so he can explain, this is under our wholesale department. Please, Mr. Alberto.

**Alberto Griselli – TIM S.A. – CRO**

**Alberto Griselli (CRO)** – Yes, hi, Leonardo. It's, it's a quite a standard business that on a yearly basis, we review the terms of conditions of our internet traffic and so we sounded the market and we check out the best deal in terms of volume versus prices and, so this specific contract was discussed yesterday. And yes, it has been awarded to Sparkle because they provided to us the best technical scoring and the lowest price, and it extends for the 12 months, renewable.

**Leonardo Olmos (UBS)** – Yeah. Okay, just, I'm not sure you got my question. In 2020 who was the Sparkle? Who was providing you capacity?

**Pietro Labriola (CEO)** – Sparkle too.

**Leonardo Olmos (UBS)** – All right, thank you very much.

**Operator** – The next question comes from Gabriel Figueiredo from JP Morgan. So, Mr. Gabriel, you may proceed.

**Gabriel Figueiredo (JP Morgan)** – Thank you for the call. I have 2 questions on mobile, if I may, please. For the first one, Pietro mentioned during the speech that this move from volume to value and, indeed, we can see that the postpaid net adds from TIM have been softer in the past months, but on the other hand, you have been able to increase ARPUs and increase postpaid revenues. I was kind of trying to understand the drivers behind that. How are you benefiting from price increases, or are customers migrating for higher value packages such as Controle and pure Postpaid?

**Pietro Labriola (CEO)** – Yeah. And the second question?

**Gabriel Figueiredo (JP Morgan)** – The second question is still on mobile, if you could give us a color on competition? We saw Oi launching unlimited products. How are you seeing this trend right now? Thank you.

**Pietro Labriola (CEO)** – Okay Gabriel, First of all, thank you. You catch the right point that is related to our strategy that we declare a couple of years to move from volume to value. As you have seen, we posted a growth year-over-year in this first quarter, mainly on the postpaid and the growth is related also to the fact that we had softer net adds increase. But in the meantime, we were able to continue to increase the level of consumption in our package by our customer. What I mean is that our package differently from WhatsApp, for example in a country like Italy or US, do not have a huge amount of giga.

During the pandemic, customer further increased their level of data consumption and it will allow us to [inaudible] giga to package to higher amount of giga. What is important to highlight is that, in this number, it is not yet included price up that we did in the month of March. The impact of the ARPU increase coming from the price up will be more appreciated in the second quarter.

What is important is that our price up is not a real price increase, but it's with our more for more strategy, what we do. We had more giga for the customer exchanging [inaudible] our strategy that we defined from volume to value is composed by package of giga that progressively, time by time, are increased in terms of amount of giga in front of a price increase. This will follow the data consumption increased from our customer that in 2020 was driven by the increase of consumption due to the pandemic, but it is a natural trend for a country like Brazil. To sustain this strategy, we have to further improve our quality of service. The fact that we were able also to reduce the level of churn, as I mentioned during my speech, is a further element that confirm that we are on the right time.

So, when we will discuss the results of the second quarter, we will show a further increase in the revenues of postpaid year over year, and this time they will be much more driven by an ARPU increase and less driven by a customer base increase.

Coming back to the second question, that is related to the competition. Time by time, if you remember it up and also in 2019, there are some operators that are

perceived in the market with a lower level of network quality that try to gain space releasing on demand in the market an offer with a higher volume of giga.

So, the good part of the market and of the customers of these offer and of these operators, what's happened is that they do not have impact in terms of strong increase of customer base, of change of operator. So, we do not foresee these offer as an issue that can change. So again, I don't know if you were able to catch all my answer because I understood that we had some technical issues Gabriel. I was able to explain?

**Gabriel Figueiredo (JP Morgan)** – You were cut sometimes, but I got the answer, thank you very much, get it very clear.

**Operator** – The next question comes from Cristian Faria from Bradesco BBI. So, Mr. Cristian, you may proceed.

**Cristian Faria (Bradesco BBI)** – Hi, good morning everyone, I have two questions regarding the FiberCo deal. So, the first one, I would like to understand the estimated growth in terms of homes passed. If the estimated growth now – we didn't see so much difference regarding the expected CapEx deployment, but we'd like to understand how much the company can achieve in terms of homes passed in the the future, now with the new investment partner vs previously? And the second, my other point is that, if the primary offer that the company will receive it's enough to fully finance the growth expected in terms of capital deployed? Thanks.

**Pietro Labriola (CEO)** – Okay Christian, I think that first of all, it's important to remember that when we presented the new plan during the TIM Day, we clearly stated to the market that [inaudible] the FiberCo project. So, once we close the deal with IHS, the first step of our deal was we use IHS to fulfill what was included in our plan in terms of homes passed. So, in this first phase we are not [inaudible] having further homes passed but by [inaudible] through the vehicle of IHS, we are going to deliver what was already included in the plan. It's clear that what we have in mind [inaudible].

**Adrian Calaza (CFO)** – I'll take the question from here because we have some issues with the connection... But, Cristian, I think that you heard what Pietro was mentioning. We reached this agreement with IHS for the FiberCo based on our actual plan for deployment of FTTH and obviously operation and maintenance of

the actual networks. Clearly, in order to reach the agreement, we need to base it on what we already have and what we are already projecting.

As I was mentioning in the first in the first question. Here the goal obviously is to accelerate as you know, the opportunities that will have in the next few years. We want to get a big portion of those opportunities. So, yes, obviously, the intention is to make more of what we were projecting, what we have now and the base of this agreement is the actual plan that we have. So, that's why you see the figures of reaching almost 9 millions of homes passed in 4 years or what we are doing for the next few years.

The other part of your question is regarding the component of the primary that IHS will be paying, if it is enough in order to finance? Yes, it's enough to finance the first years of the operation remembering always that the good thing of this FiberCo is that is born with a noncore customer that is TIM. So, the FiberCo will have an EBITDA since the beginning.

Probably something different in other cases, but again we would try to focus on our project. So, of course with the EBITDA and the capital injection coming from IHS, there will be enough cash flow to finance the additional deployment. Obviously, every company can be much more efficient through leverage. And we obviously could consider this alternative, but again we are very comfortable with this level of primary at least to finance the first 3, 4 years of the fiber.

**Pietro Labriola (CEO)** – Just to complement as I was telling before that it is important to remember that when we presented during our TIM Day presentation our three years plan, we didn't include in our numbers the FiberCo operation, the FiberCo deal. So, in this first phase what is happening is that we are replicating with FiberCo the target of homes passed that there were in our plan – it's clear that we have the flexibility to further accelerate because our goal is to use this vehicle to have an acceleration in terms of coverage. The way in which this deal was built, give us the flexibility to do that. As I was explaining, also from the financial point of view, there are all the elements that can allow them to have a further acceleration.

What we will do is that once we put everything in place from the operational point of view, the next step will be to evaluate the right speed up that we can have with this vehicle. And again, related to the first question that we received from the FiberCo, it's real important not to discuss about which is the level of EBITDA of

this FiberCo, because from our point of view, this is an industrial operation and this is not a financial operation.

Because if we would like to have the financial – operational that it was quite easy to increase the level of EBITDA of this company, increasing the transfer price of the cost of the local loop. We kept this level at the low rate because this is a vehicle that will allow us to further accelerate our growth in the ultrabroadband business.

So again, I'd like to stress this point because this is not a financial deal, it has also important financial components, but at the end of the day is an important industrial deal that will allow us to further accelerate our ultrabroadband development.

**Cristian Faria (Bradesco BBI)** – Perfect, thanks. If you just allow me to make it [inaudible] in terms of TIM branding. So, [inaudible] infrastructure to other players?

**Adrian Calaza (CFO)** – Cristian, we lost you in part of your statement, can you rephrase?

**Cristian Faria (Bradesco BBI)** – Perfect. I just want you to understand if the growth in terms of homes connected will be exclusive to use the TIM brand? So, or the fiber company will be able to offer the other homes passed to other players as well?

**Adrian Calaza (CFO)** – Okay. Yeah, understood. As we mentioned in the material fact that we issued yesterday, there will be for every new deployment a period of exclusivity for TIM of six months. After that, yes, obviously, the FiberCo could start to offer the infrastructure to other players. That's the main difference when we talk about neutral or open vehicles.

In this case, it's not a neutral because the vehicle will have the anchor customer that is TIM and we'll have an exclusivity period on every new deployment. But then, yes, these networks will be open to third parties. That's probably what's interesting in this deal in and we think that it's reflected in the value of the company.

So again remembering always that we will keep all the management of the customers, we will keep even the management of the of the home devices, so we think that this is an extremely important touch point with our customers. So again,

what we are putting here in this FiberCo, what we are dropping down is from the [inaudible] to the customer.

So, the answer to your question is yes. The networks will be open after a period of exclusivity.

**Pietro Labriola (CEO)** – Adrian, if I could add perhaps also to do a comparison and help Christian to catch the difference between other model of the InfraCo. As I was was explaining... In the Brazilian market, you will see that you will have some cases in which the InfraCo model will be completely neutral. What it means that from the 0, the day where they've [inaudible] infrastructure, the last mile [inaudible] can be brought by any operator. There will be no exclusivity of the time for one operator to buy from this neutral InfraCo. This is more or less the model of Oi's InfraCo. Okay?

The model that is pure wholesale that have some pros and some cons related to the fact that you don't have an anchor operator customer. Our model as Adrian was explaining is open. What it means? Once we will be the fiber infrastructure for a certain period of time, 6 months, the only operator that could buy that infrastructure will be [inaudible]. After that period of time it would be also to other operators. Okay? So, these are 2 completely different because in the second one, the one that was chosen by TIM, it's clear that you can give a strategic indication that must be developed and continue to be synergic with the strategic plan. This is the reason for which I stress another time, it's more an industrial deal then a financial deal.

**Operator** – The next question comes from Carlos Sequeira from BTG Pactual. So, Mr. Carlos, you may proceed.

**Carlos Sequeira (BTG Pactual)** – Hi, Pietro and Adrian. Good morning, how are you? Thanks for taking my question. I will stick to the transaction of the fiber company. I think by now, I got it. But just to confirm TIM's backhaul and backbone are not included in the assets that are being transferred to the FiberCo. They will remain controlled by TIM. Is that right?

**Pietro Labriola (CEO)** – You told about the backbone, is that right?

**Carlos Sequeira (BTG Pactual)** – Yeah, backhaul and backbone. Yeah.

**Pietro Labriola (CEO)** – They will stay with TIM.

**Adrian Calaza (CFO)** – Cadu, Adrian here. As Pietro was mentioning, we always said since the beginning that what we were interested in order to find a partner on the last mile and why this was the same? Because remember that our backbone and, obviously, our backhauling are mainly for the mobile business yet, considering what we have. Of course, as we said in the beginning for the ultrabroadband it's always leveraging on this mobile infrastructure that we have.

So for us, it was extremely key to maintain what we have in terms of backbone and backhauling in-house. So that's why the only thing that we are dropping down is the secondary network. In the end, as we mentioned, this is an industrial deal and it's probably more strategic. And the strategy is to maintain the backbone and the backhauling in-house.

Then there could be additional sides in the deal, in this FiberCo deal, because FiberCo could be in the future, yes, deploying infrastructure, not only on the FTTH but also on what we call FTTSite, because it could be also efficient – but what we are dropping down to the company is limited to the secondary network.

**Carlos Sequeira (BTG Pactual)** – No, it's clear and I think this is important to be clear to everybody because we, ourselves, when we were doing the analysis we mentioned an EV per homes passed and compared to what happened in the deal – It is completely different, right? Because it included backhaul and backbone. So it's impossible really to compare the deal transactions from a valuation standpoint, right?

**Pietro Labriola (CEO)** – Yeah, you are right. Also because some of the transaction that happened had also customer included. In such a case, we are only including the last mile – is the fiber that go from, let me say, the OLT, not to the customer house.

**Carlos Sequeira (BTG Pactual)** – No, perfect. And a different question, I mean, you, the plan, the expansion plan is pretty, pretty aggressive, right? My question is which type of geographies or is cities you are looking, the fiber company will be extending to? Is there any specific target you're looking forward just a top of market that you were going to target with the new company?

**Pietro Labriola (CEO)** – Carlos, it's clear that if we were just into in front of a coffee or a glass of wine, I can give you a lot of details that now could be the disclosure of our strategy. What I mean? It's clear that your question try to understand if there is the risk of some problem with other activities that are quite similar?



We took a lot of attention to our geomarketing model to evaluate exactly where to go. In our plan there will be, for sure something that we can disclose, part of the change of the FTTC and FTTH, what we call brownfield. The choose of the remaining area will be done based on our idea about the move and the strategy of the other players in terms of geomarketing and analysis about what is the potentiality of each area. And it's clear, you have to consider that are these different factors that you have to keep in mind. Also, the strategy of the other player.

So, there is someone that evaluate the evolution of the cable technology and which cost cable technology is able to scale up to 1 gbps by the migration of copper to fiber from some other player. There are some small list that have fiber optic network, but with the level of overbooking that do not allow in an easy way to upsell and upgrade the network at highest level of speed. So, these are all the different elements that we are evaluating to define exactly our geomarketing approach in the different area.

What is clear is that we will try to avoid all the lap – and that we will never try to be the tip of the fourth player to go to build a fiber optic network, because makes no sense from the industrial point of view. But in some way, thanks to the sites of Brazil, the untouched market is still huge. So, I don't foresee in the next three, five years huge issue in terms of overlapping.

Carlos, it's clear that you have to keep in mind that, this is something that is – it should [inaudible] because you to consider also what will be as I mentioned the strategy of the other player. You have to keep in mind that differently from TIM, there are some legacy, so the strategies differ the legacy – go for untapped market it will be difficult for them to do. And we must be clever, having no legacy, to try to fill these, let me say, gap in their strategy that will be less on the market due to the fact that the increase of speed is the track. We are already moving to offer for a 400 or 500 mbps and you can imagine that there are some technology that can have much more difficulties to follow these kind of strategy.

**Operator** – The next question comes from Alejandro Gallostra from BBVA. So, Mr. Alejandro, you may proceed.

**Alejandro Gallostra (BBVA)** – Hi, good morning Pietro, Adrian. Thank you very much for taking my questions. The first one, I'm trying to better understand the strategy of the new FiberCo. The purpose of the of the FiberCo is to have all your



homes passed with FTTH in 4 years and having nothing with FTTC? So, that would mean that you plan to upgrade your current FTTC network to FTTH and then increase the FTTH footprint in order to reach the 9 million FTTH homes passed within 4 years – is that correct? We are talking about 9 million FTTH plus 3.5 FTTC. And then what will be the infrastructure deployment plans at the [inaudible]? That's my first question.

And then the second question is regarding the personnel expenses. You have been producing the number of employees at a faster pace in recent quarters – will this trend continue as part of the digitalization process, or it is accelerating because you were permanently closing stores? And how much reduction in the workforce should we expect going forward? And in addition, related to this question, you mentioned in the press release that employees will be transferred to the new FiberCo, so would it be possible to measure the number of employees that you will be transferring to the new entity, when the transaction materializes? Thank you.

**Pietro Labriola (CEO)** – Okay. Related to the first question before to leave Adrian to give more details, perhaps my previous speech wasn't clear. We are not starting to face off the FTTC changing everything for FTTH. In our 3 year plan, what will do that we will partially substitute in some area FTTC with FTTH. We don't have to do that in once. So, at the end of the three year, we will continue to have FTTC customer, but we will migrate part of them, not all the customer to FTTH.

Okay. So, now I don't remember, but today we are more than 300,000 FTTC customers, if I'm not wrong. Our number at the end of 2023 will be to reduce FTTC customers from 300,000 to 100,000 customer. But Adrian can correct me if I'm wrong. Related to the personnel expenses keep in mind that, first of all, employee reduction – we don't foresee employees reduction also because we have more or less 9,500 employees. If I remember well in 2015 we were 13,500. Okay?

So we already did huge job in terms of the use of external forces, outsourcing part of the activity. So, we don't foresee these activities. What will happen is that the digitalization process that we put in place is allowing us to reduce costs that we have externally for some kind of activities that are more human based then automatized. Then, in relation to the comparison year-over-year, if you look at the real labor costs, if you look at the overall cost, it's an increase, if I'm not wrong, of 8% year-over-year. But the real increase on what these labor cost was only 3% –

it is more or less aligned with the inflation, the remaining part is related to some contingencies. But again, Adrian please. If you want to integrate or correct something that I told.

**Adrian Calaza (CFO)** – No, you said it correctly Pietro. On the first part of the question in terms of what we will have 4 years from now in terms of homes passed, clearly we want to reach 9 million homes passed on FTTH, but it will remain still some others on FTTC. Why? Because we will be overlaying from seed to age where we need to. As always, we need to be extremely efficient to maximize the return. So, is not that we will be overlaying all the FTTC in 4 years.

On the second part of your question regarding the employees that will be going to the FiberCo, remember this is a very limited number of employees, we're not talking about something significant. Anyway, we didn't have any movement in numbers of employees in the past – we think that we are very comfortable with the situation and we don't have plans in order to reduce this number.

**Pietro Labriola (CEO)** – Alejandro, allow me to further give another detail about why FiberCo. Next year, but reality, the truth is that already this year, we will have a big challenge that will be the integration of the Oi assets. So, one of the reasons to create a FiberCo was also to create, let me say, a center of excellence in terms of fixed operation for the last mile. What I mean? Until you discuss about backbone, backhauling, transport network, there are a lot of synergies managing a unique network, fixed and mobile. When you talk about the last mile, it is something that is completely different from, let me say, the last mile of mobile. Mobile is a delivery of a SIM and everything works. In the last mile, it's a complete different job.

So, the creation of a FiberCo will allow us to have a TIM that will be completely focused in the tough job and we are sure that we will benefit also from an operational point of view to have a separate company completely focused on this activity.

I have been working on the fixed for a lot of years in Italy and they can assure you that I don't want to say that there is one simplest then the other. But for sure, our two activities are completely different and it is difficult to let them convert. So, the creation of this company will allow to our internal team to be 100% focused on the integration of Oi and discussing about the operation activity and we will add another team that will be in the new InfraCo, that will be completely focused to build this last mile network. Then, Alberto and his team will be focused to sell

fixed and mobile because at the same level nothing changed and will continue to manage the customer.

**[Instructions]**

**Operator** – Without any more questions, I am returning to our CEO Pietro Labriola for his final remarks. Please Pietro, you may proceed.

**Pietro Labriola (CEO)** – I've been saying this for the past few quarters, in TIM, we don't use shortcuts. We will maintain our focus on the sustainability of the business with a rational approach and solid execution. The anti-fragile stance of the company is turning challenges into opportunities to evolve further. So, we will continue to use our innovative approach and agility to make the right decisions and be ready to take full advantage of the recovery of the economy.

I want to thank the dedication and commitment of our team, who continue to overcome many challenges to deliver outstanding results. Together we can do more, “*Juntos somos Mais*”

Thank you once again for participating in our conference call. Stay safe and healthy. I hope we can virtually meet soon in the upcoming events we will be doing with the financial community.

**Operator** – Thank you, Pietro. So now we conclude our first quarter results conference. For further information and details of the Company, please access our website, [tim.com.br/ir](https://tim.com.br/ir). You can disconnect from now on. Thank you once again!

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