Marcelo

Good afternoon, ladies and gentlemen, and thanks for waiting and be welcome to voice video conference to discuss 2021 fourth quarter results. The event will take place in English with simultaneous translation into Portuguese. And please be informed that this video conference is being recorded and it will be available later on the company's RI website. During the company's presentation all participants will be with their microphones disabled. To get in line, in order to ask questions, please click on the Q&A icon at the bottom of your screen and write your name and company. After the presentation, we will begin the Q&A session. Now, I would like to pass the floor to Mr. Rodrigo Abreu, Oi 's CEO. Please, Rodrigo, now I think you can proceed.

Rodrigo

Thank you, Marcelo, and good morning all. Welcome to our fourth quarter 2021 call. And before we start, I would like to remind everybody the reason why we have delayed this call. As you all know, we are on the verge of completing a substantial restructuring of our business and, as announcing the transformation plan we set out to do back in 2019 and 2020, this involves the sale of UPIs, assets operations, the separation of our mobile infrastructure arm into three special purpose entities that have just been sold to the three other operators in Brazil. We are separating our infrastructure operation as well and are on the verge of closing this operation as well. We have just announced the signature of an MOU with the Sky for the divestment of our DTH mobile TV subscriber base. And all of this obviously added an enormous level of complexity to do all of the auditing work and to close the 21 numbers in such a light. So we had to do a complete review of all of those operations and all of the level of complexity of those operations led the audit process to take a lot longer than usual.

But as we advanced when we announced this delay, no significant differences to the key numbers that we have presented when we announced the delay occurred, and we had highlighted those before, just to give a hint of what was to come and to signal that this delay has nothing to do with all of the numbers that we are presenting, but simply with the sheer complexity of finishing all of the audits of the transactions and our restructuring operations to close 2021.

Since the delay, as announcement, as you know, we have already successfully closed the sale of our mobile UPI. And this for us marks a significant milestone of our transformation plan. With that, let's look at the highlights of Q4 and the year. Knowing that there will be still significant changes to the way we both present our numbers for the future, as well as how we should measure the company's success going forward after we complete all of the restructuring progress.

So let's turn straight to Slide three, where we can talk about some of the highlights. As you know, the transformation of our business depends on completing not only the restructuring operations, but also depend on creating a healthy, transformed core while we simplify our cost structure for the future. And this, we're all on track basically at the fourth quarter of 21 delivered not only the important operational milestones, but also confirmed the operational results we have been trying to obtain in all of the different fronts.

We start with the solid fundamentals on the core business. And there we can see that we continue to accelerate the fiber business. We were first in market share growth and leader in 17 states. We reached the significant numbers of both homes connected and homes best, and also delivered the guidance for the full year that we had set out to do at the beginning of the year.

We also confirmed the residential turnaround. We're going to talk more about this, but for the first time in nine years, we presented full year annual growth in residential revenues. And this marks a departure from the decline in legacy revenues that obviously are brought forward because of the declining copper. And with fiber taking center stage here, we can confirm that the residential revenues will continue to go up in the future.

We also brought growth on the small and medium enterprises and in the ICT revenues in B to B, and this marked significant increases in both segments, with 5.2% year over year on our small and medium enterprises revenues, and over 13% year over year ICT revenue growth. On the second pillar, we have also provided a solid, sustainable and simplifying operating model for the future and 2021 helped us to set the stage for doing just that. We start with a strong cost efficiency program. It continues. We presented very good results of 6.9% year over year cost reduction in the fourth quarter and almost 3% year over year for the full year. And this represented the significant real gain considering that we had an over 10% inflation considered in the IPC index in 2021. So in spite of all of this growth in the inflation index, we managed to deliver the strong cost efficiency we set out to do initially at the beginning of the year.

This came with a simplified organization. We had a -18% year over year personal cost reduction in 2021 in the fourth quarter, and with a full year -8% in total our full year cost in personnel. Again, looking for a simplified organization going forward, looking for a streamlined organization following the transformation of all of the businesses and the divestments of the businesses that we had set out to do.

And finally, we're applying ESG where it matters. This is not only helping us do what's right, but it's helping us where it matters, where it helps us (?) costs will help us increase the perception of OI as an inclusive environment, where it helps to engage our entire workforce and ultimately apply ESG, where it matters for our transformation. And in addition to the solid fundamentals on the core business and the simplified operating model, we obviously continue to make significant progress on the structural milestones. We have now the structural milestones in the final phase, after everything that happened last year with the closing of Towers and Data Centers, the signature of the infrastructure deal, the launch of the separate brand for the start of the infrastructure operations, (?), the approvals that we had in CADE. Finally we have closed the mobile UPI and we have signed also the term sheet with Sky for the DTH TV. So of all of the big operations we had set out to do, we are on the verge of closing all of them now with just that one big operation to be closed in the coming weeks. And with the term sheet for the last UPI, which was the TV, UPI also with very good progress present.

So turning to page four, let's start as usual by looking at the detailed performance of all of the different components of our business, starting in page four with Fiber. In Fiber, it's been approximately three years since we launched the project and Fiber has proven that it will be the core of our long term. After the first three years, the project is still going strong, showing the company's execution capacity to launch the project, but also for the long term execution. The revenues for fiber reached the 3 billion level in 2021, not only the annualized revenue, but the actual level of 3 billion revenues in 2021, which are much higher going for 2022. And this is a long way from the almost nonexistent Fiber revenues we had when we started 2020. This comes as a combination of a great home connected base that reached 3.4 million homes connected at the end of 2021. And this helped us deliver the guidance in terms of homes connected but also a continuously improving ARPU, which started with 81.9 in 2019 and is already getting close to 90 reais with 87.5 reais for 2021.

All of this happened despite a market tightening and we know that the market has tightened at the end, especially the second half of last year. But in spite of that, we increased market share in most regions and as I had highlighted we are the fiber market leader in 17 states and in pretty much all of the cities covered there. The ARPU growth with all of that continue to happen because we have managed to improve the percentage of the high speed connections as our total base is concerned. And in fourth quarter 21 the higher speeds already represented over 14% of our total connections. So this proves that obviously it is a much tougher market now but the performance can be confirmed and can help actually turn around the residential segments as we can see in the next page.

So after many years of decline, nine years to be more precise, our residential turnaround was confirmed with full-year top line growth. Obviously due to the fiber results, the revenues grew year over year despite the sharp declines in legacy that continue to occur and that we're seeing in particular in the fourth quarter of last year. But we had a full year growth of revenues coming from 5.2 billion to 5.1 billion, 187 billion to 5.214 billion at the end of 2021. In fiber is continuously offsetting the decline in legacy services. As we can see, this was expected but is a good confirmation that we now have completed a fully version both in RGUs and revenues between fiber and copper. And this is here to stay. The tipping point came in the second quarter of 2021 but it continued in the third quarter and continued in the fourth quarter and it's here to stay.

Even with a much tougher market, we managed to be the leader in fiber net ads last year, with 1.2 million fiber net ads, so according to plan and a lot ahead about pretty much all of the other players. And as our base is already large and growing, what we did in the fourth quarter in starting to do with a lot more precision in 2022 is shifting gears as well to profitable growth. What does this mean? This means that we're fine tuning our acquisition and credit policies for FTTH in order to achieve higher customer lifetime values and also to control involuntary churn and bad debt that are naturally associated with the fast growing customer base. So we have started to do that, we are now being much more stringent on our credit policies. We are bringing a much higher quality customer base and that adds in this policy will continue for 2022 because now what matters is actually the contribution that we're bringing on top of everything that we have been constructing as a very healthy customer base.

An additional positive data point from fiber comes from the small and medium enterprise performance as can be seen on the next page and the SME segment also showed full year growth, after some years of decline with more resiliency on legacy adding to the fiber ramp up. On SMEs, the revenues grew year over year, more than doubling the farmer participation both in the quarter as well as in the full year. And we started in 2021, a very focused strategy that was implemented with channel synergies, a lot of partnerships for the segments and obviously as I mentioned, a more resilient legacy services base. As an example of that, we started the great partnership with Pago Seguro and OI Fibra in 2021, where we have several competitive benefits for SME customers that adopt both the Pago Seguro POS as well as our OI Fiber.

SME also starts to benefit from solution develop that does being carried out in B2B and we look at B2B's highlights in the next slide.So in B2B execution we have the performance in line with the company's expectations, with a lot of ICT growth supported by a portfolio evolution and by a lot of value added services during the year. Even though legacy also declines here and we know that there is a lot of legacy revenues inside the B2B legacies as a revenues as well, we can see the core revenues grow year over year and represent already close to 60% of all of Oi Soluções' revenues. On the core revenues, we can see that the split between telecom or an ICT core continues to tilt in favor of ICT. And ICT already represents close to 14% of total revenues. So the strong performance of Core ICT came to boost the new revenues and was based on a number of launches including a multi cloud platform launch with close to 200% year over year revenue increases, 80% revenue increases in IOT and video surveillance and analytics, software deployment squareds in new agile modes increasing by 63% of digital applications revenues, 36% of revenue increases with the Wi-Fi launch with Wi-Fi projects. And we have a lot more projects on the pipeline in a continuously growing portfolio of Value-Added Services and I.T services for Oi Soluções.

And now ultimately this is what we Oi Soluções is poised to be it's a component of our core revenues that focus initially on telecom core but it's rapidly expanding to ICT core which will represent without a question the bulk of our growth and stabilizing Oi Soluções revenue over time as we expected.

Next, as we normally talk, but this time for the last time as a full year results. Let's look about our mobile performance in Q4. So in page eight, we can see that even though this is an exit business for us, we didn't have a very consistent performance during 2021, which contributed to a positive closing at the mobile assets UPI sale in this quarter. We look initially at the mobile client revenue, which was up both on a quarter over quarter and year over year basis - so very positive metrics in terms of mobile client revenues. And in the closing screens during 2021, we even expanded our mobile base, especially with postpaid growth that at the end of 2021 represented over 60% of our customer base. When we look at that, this was supported by a focus strategy and led to share gains in both revenues as well as in pre and postpaid next years. This was supported by promotional offers, a focus on profitability, portfolio rationalization and obviously incentive actions throughout the year to increase consumptions.

With all of that, we have a very, very positive closing of the mobile assets UPI sale on

April 20th and what we expected as the closing price which was originally analysis of 15.744 million or billion in this case, we now closed that with an actual number of 15.9 billion reais, considering that we had some positive adjustments to the original selling price, in addition to a potential 300 million, or close to 300 million contingent amount in terms of earnouts due to certain performance conditions we had set out to do in migrating our customer base to the new buyers. So all in all, the mobile assets UPI closing was conducted with significant results for us in a very successful way. And this actually marks the first departure that we had set out to do in terms of the big restructuring operations for the company and a successful milestone that is now fully completed only depending on the final transition of the clients that we will occur during the period of the next 12 months.

Finally, with the closing of the extraordinary operations, we will be able to shift attention to new revenues as well as we can see next. So in page nine, we can see that the new revenue components based on add-on services have experienced relevant growth, but there are still lots of room to develop. We confirm the great potential that those new revenues have for us as they presented over 50% year over year growth in Q4 and almost 40% year over year growth for the entire 2021 year, getting to 160 million reais. And some examples of those metrics on our key add-on services illustrate not only the strength but this potential. Oi Place increased 35% in GMV, increased 45% in terms of number of orders, and both Oi Expert and Oi Play had also significant increases. In the case of Oi Expert, over 45% increase in the number of customers and in the case of Oi Play, over 100% increase in time of usage. We expect the significant acceleration due to the launch of new services in the coming future. And obviously in the long term this will be a significant component of our overall new Oi core revenues.

So now let's look at the current revenue mix, all segments considered on the next page. So on page ten we can see that even though we had some slowdown of our overall consolidated revenues, we see that we had now over 40% of growth in core revenues and core revenues already present 57% of continued revenues, up from 41% last quarter. We know that out of the consolidated revenues, a lot of the revenues are discontinued operations and TV. But when we look at the core revenues, especially fiber, B2B and all of the revenues that will continue growing in the future, we see the significant progress of things. And this, as I mentioned, now make up for 50% of continued revenues.

The slow down of the consolidated revenues was softened by the overall fiber growth. And as we had the trend back in 2018 that pointed to close to 10% decrease in consolidated revenues, this has softened to 4% this year. And with all of that and the fiber deployment change in this revenue trend we are now positioning Oi any particular of the new Oi revenues to the continued revenues, the return to top line growth in the very short term future. Fiber will be at the center of that with 29% share of continued operations revenues and obviously this number will continue to grow.

Last, in terms of business unit results, let's look at V.Tal. And in V.Tal we must say that we have already completed our structural separation even before the closing of the transaction and the admittance of the new controlling shareholder in BPG. But as we had announced last year, we had a goal of completing the structural separation in 2021 to have V.Tal operating as a fully independent company. And this was completed and this is allowing the accelerated growth to continue on HD deployment. And in addition to that which obviously already had been happening while we had V.Tal inside Oi, as the infrastructure operation, we also are managing to get significant commercial traction with the segregated operation in place. We reached at the end of the fourth quarter 21 almost 15 million homes passed. We again delivered guidance in terms of homes passed. We have added more cities in the commercial launch of more cities to reach out. We now have cities in pretty much the entire country, which are growing significantly in terms of homes passed, and the commercial traction is getting. We had nine new sign neutral contracts covering almost 50 cities and 5 million homes passed last year. And V.Tal in the beginning of this year just announced as well a new agreement for virtual tenants to use the neutral network nationwide. In terms of the operation is important to mention that since the very beginning of this year, we are operating the infrastructure in V.Tal as the lock box agreement with BPG in which all of the results of these operation and even before closing are already attributed to the new controller and all of those compensations will be carried out as soon as we close the operation shortly.

So all in all, we have the V.Tal operation already fully independent operating as it should, and we believe that we will continue to be a critical part of our equity story going forward. As we know, we expect the V.Tal operation not only to grow very fast, but also to represent the significant value increase for us in the coming years. And this will help us address the long term sustainability of the company.

Now, after talking about the business results in terms of revenue generating units, let's look at how we're simplifying the company and bringing greater efficiency, starting with page 12. As we all know, efficiency and simplification was always a key component of our transformation, and we are happy to say that we delivered very solid results in 2021, despite the inflationary pressures as I have already mentioned at the beginning. Our routine Opex was down 7% year over year in the fourth quarter. And even with all of the inflationary pressure -2.6% for the full year 2021. This represents a real gain of almost 13% considering that we had an almost 10% inflationary index there.

When we look at the dynamics both for the full year as well as the quarterly dynamics, we can see that the gains occurred in pretty much all of the components, even with many impacted by high inflation except some which are very impacted by inflation and are not fully controllable, such as rent and insurance with external contracts that are obviously impacted by the inflationary components. But in addition to that, we can see that we had significant reductions in pretty much all of the components, both on a full year dynamics and on a quarterly dynamics. And as we can see, we managed to compensate for inflation, especially at the end of 2021 resuming the OpEx reduction trends that we have been maintaining since 2019.

So we could see that starting in 2019 throughout 2020 we have maintained a significant OpEx reduction routine. And then this was significantly impacted by the inflation adjustments in the first and second quarters of 2021. But with all of the metrics and operations of simplification and efficiency that we introduced in the first quarter in the first half of 2021, we were able to capture the benefits in the second half of the year accelerated to a -6% decline in the third quarter and closing the year with a -6.9% decline in routine optics.

Out of all of that, controllable costs were a highlight as we can see in the next slide. And we kept a very strong stance on managing all of the manageable costs. Even with the revenue growth, for instance, the only components in costs linked revenue growth that grew were commissions and grew 54.9% in line with what we're doing in terms of increasing our selling stance, as well as in the case of mobile, fist our fees, which obviously were due to the significant growth that we obtained in our mobile base last year. But other than that, we pretty much consistently reduced costs across the board. This was also fueled by a significant digitalization of our journeys. And this can be seen in the very, very significant numbers both in E-billing and in digitalizing customer care with the digital assistants in the share of collections through digital channels that moved up to 42% in the increase of FTTH customers that interact via our voice assistant, in the increase of FTTH customers looking for technical assistance, we are the future technician that went up to 63%.

So pretty much in all different points of contact with our customers, we have managed to create a true digital journey that will go nowhere but up as we continue to include fiber as the center of our strategy and reduce our legacy operations. And the OpEx program will continue. The war, the 1 billion growth goal that we had set a while ago can be seen in the next page.

As we all know, we had mapped over 1 billion in cost reductions and we continue to execute this program on a daily basis. I should say that we are on course to the over 1 billion savings in annualized costs that we announced last year with our cost transformation program. We have basically two major sides to this transformation. The first one is to reduce the cost base after the exit of the UPIs, both mobile and infrastructure. And so we're going to have a new cost base after the UPI sales, which is roughly half of what we had before. But even with the ones that stay, we also have a significant component of reduction in pretty much three pillars. First is to streamline all of the cost outs due to the exit of both mobile and infraco, and then to reduce the organizational structure. And we have managed to achieve significant progress on those fronts. Then to streamline the new Oi operations, and we're talking about the marketing in digital, we're talking about IT and network efficiencies, and obviously focusing on G&A efforts.

And finally, we have the legacy turnaround components. The legacy turnaround components is a combination of just being a lot more operationally efficient in terms of operating the concession, the fiber operations, as well as in addressing non-organic components, such as the arbitration and several disputes with the on itself to reduce the regulated costs of operating the concession. So more to come on this, obviously our arbitration is going forward, we are on track with the arbitration. But we also are looking towards a significant cost reduction components when we look at the migration from concession to authorization and we expect some of those to produce results still this year. This helped us to manage our cash very carefully, all of those OpEx reduction programs, obviously coupled with the focus on the business results. And on page 15 we can see the results, both of EBITDA, CapEx and cash flow.

So, as it was expected that the company should do, we manage cash very carefully during 2021 and obviously we expect our operating cash profile to be fully changed in 2022, mainly from the CapEx reduction due to the exit of two of the large operations through the M&A programs. Starting with the routine EBITDA, we see that the routine EBITDA grew in Q4 both year over year and quarter over quarter, achieving a -8.7% year over year due just that there would be reduction of our overall revenues for the full year. But again, looking towards this year, we can see that this is a trend that can be now compensated after all is accounted for and the new way routines are set in place with the new core revenues. CapEx was executed according to plan. So we had a slight increase in CapEx from 2021 to 2020, but this is due primarily to maintaining the growth of the fiber base as well as of the preparation that we had to do for all of the segregation operations on both infrastructure and as well as mobile. But it was according to plan and when we look at what the CapEx represents here for the full year, we can see that a lot of the CapEx actually comes from the discontinued operation, 5.7 billion of the overall CapEx come from the discontinued operations, with 1.8 billion in new Oi CapEx. And obviously this will be a significant change in that profile for next year.

When we look at the cash flow and debt, this helped it to manage our cash position and the year end while we waited for the completion of the cash-in coming from the M&A. And as we started the third quarter, the fourth quarter with a cash position of four, 4.1 million reais, we ended the fourth quarter with a cash position of 3.3 billion reais. So still in a very manageable level with a cash EBITDA 1.3 billion. And obviously we did have some increases both in gross depth as well as NAB depth given the financing operations that we had to carry out last year while we waited for the cash means to come from the two big M&A transactions that we're closing this year. With in cash means starting now with the mobile closed, we start to address the deleveraging of the operation as can be seen in the next page.

The deleveraging process was initiated now in the second quarter 2022, following the mobile UPI proceeds and this will set the stage for further future deleverage with more UPI proceeds coming in the near term future. When we look at the gross debt breakdown, as I mentioned, the gross debt breakdown last year increased within the financing operations, but now we start to revert this trend. We can see that out of the mobile UPIs we have already addressed close to 11.5 billion of debt amortization when we settled both the BNDES as well as the two extraordinary financing operations we have done to close the bridge of cash last year, the bonds 2026 of 5.2 billion reais, and the mobile bridge loan with 2.2 billion reais, which were both liquidated with the proceeds of the mobile UPI. In addition, the proceeds of the mobile UPI, obviously we now expect the proceeds coming from Infraco and the proceeds will occur in several installments, including a first installments expected at closing. And we expect again that this will be during May.

And then to the secondary and additional components of the closing of Infraco, including the settlement of an intercompany note loan of 2.5 billion. And finally, the second and third installments of the secondary components of the close. And then overall, we will have brought to Oi over 26 billion reais and here is a new procedure to address the deleveraging of the company.

So as the last comment here, it's important to mention that while we closed mobile this quarter and we had the closing and the liquidation of the 2026 bond, it's important to mention as well that the very good cash management and Efex management helped us to close the 26 bond with a significantly positive hand operation where we were able to capture the down fluctuation we had in the affects between reais and dollars to close the 2026 bonds liquidation. And this brought forward a significant gain compared to where we have the current debt affects rates going forward.

Next we can talk about an important component that pretty much everybody talks about these days but that we are applying where it matters, which is ESG. And in ESG obviously we're looking at ESG because it is the right thing to do, but we're applying where it matters for the company. So in all three pillars, we have an E in S and G applied to important initiatives to help us not only do what's right but to do what's right where it's right for the company. In particular in terms of energy consumption, where we significantly reduced our energy consumption, including renewable sources last year, and refurbishing FTTH and equipment and providing savings both for the environment as well as for the operation in looking towards creating a much more engaged workforce. And we have numbers to prove that, with a 94% employee satisfaction in an internal survey with over 6000 respondents and the perception of a very inclusive environment, so creating the basis for future OI, that is well positioned as well in terms of employee engagement. And finally, with a continued revamp over corporate governance and the launch of US, several additional initiatives in the governance space to help Oi, we have very solid and very important governance components to help us look towards the future.

Finally, let's look where it matters. Where are we going? And in particular, when we look at this transformation journey that started with the plan in 2021 and it had the bulk of its execution during the whole last year and now we are at the final stages of it. We can see that a lot was not it was a very challenging and intense period and we believe that we are now close to completing the most critical parts of our transformation plan. During all of 2021 we pretty much set out to do everything that we had set out to do with the amendment to the plan at the end of 2020. We delivered pretty much all of the milestones in 2021. We delivered the milestones of the first, the large close of the UPI mobile assets. Now at the beginning of Q2 we have launched a new brand for Oi as soon as we closed the mobile assets UPI, communicating to the entire market that the new Oi will be focused on the digital live and on fiber broadband. We signed the term sheet with Sky for the TV business and now we have a handful of additional actions to complete during Q2, including the Anatel approval by V.Tal, which is expected for today in the ordinary meeting of the regulatory body, the closing of V.Tal that we expect that can still take place during the month of May.

Finally, the end of the judicial reorganization of the company that was approved by the creditors in our 2020 plan to go all the way until the end of this month of May. And then we will start what will be the new Oi pro forma results, disclosure and short term guidance as we close pretty much all of the important operations and restructuring operations and M&As that we included in our transformation plan. This will mean a new journey and in the next page we can see that we will start 2022 with a brand new repositioning campaign that is based on a clear vision, mission and strategic objectives. When we look at what happened, it all started with the initial reorganization plan back in 2018. It was converted into a strategic transformation plan between 2019 and 2020. It became a judicial recovery amendment at the end of 2020 and then being executed during 2021, and now we can go to finally building the new Oi. The new Oi is based on a vision to be the leader in fiber optics connections and digital solutions that improve the lives of people and companies across the country with a mission of creating new futures, bringing the digital life to everyone. And to achieve this vision and mission, we have some very clear strategic pillars. We have the pillar of the core business acceleration, with all that we're doing in terms of fiber and that we're doing in terms of B2B, we are creating a new client centric model without the infrastructure. So focusing entirely on being client centric and developing new client solutions. We have the acceleration of new sources of revenue as an important component to complement our core revenues today, we are simplifying the company drastically with a new operating model to become a very solid and sustainable company. And finally, we're addressing all of the concession issues in the legacy revenues and the legacy business that we have to become a truly sustainable company going forward. With all of that, we have launched the brand repositioning that will evolve until next year, signifying, implying and communicating a new company. Folks views on improving people's lives, a partner for the digital life of everybody, which ultimately we want Oi to be a company that is side by side, all of its customer base beat on the consumer side, beat on the small and medium enterprises and B2B side, but a completely transformed company, with a future hands sustainable, completely transformed and delivering what we promised.

In closing, we are almost completing the significant transformations we set out to do in 2020. And 2022 will mark the beginning of a new journey. We remain confident and committed and expect that after we turn the page on all of those extraordinary operations at the end of this month, this will mark the beginning of a truly new Oi, and then we will start to communicate with all of you in a completely different way, with new metrics, with a new form of presenting our results, and obviously with a new future ahead of us.Thank you all. And I believe we can now start the Q&A session.

Marcelo

OK, Rodrigo. So now we will begin the Q&A session. Please remember that questions should be asked in English only. To get in line in order to ask questions, please click on the Q&A icon at the bottom of your screen and write your name and company. After a name begin announced a request to activate our microphone will appear on the screen and you must activate it to ask your question. So our first question comes from Lucas Chaves, cell site analyst from UBS. We will now open your audio, Lucas, so that you can ask your question.

Lucas

Hi, guys. Can you hear me?

Marcelo

Yes, sure. You can proceed.

Lucas

OK, thanks for taking my questions. Can we discuss the celebration and adds in for Q21? We were seeing a pace of around 110 K a month in previous quarters. What can we expect for 2022? And if I may ask a second question, OpEx reduction was very strong for Q2. What additional factors could drive up the margin in 2022 and what level of margin can we expect for the full year? Thank you.

Rodrigo

Thank you. Lucas. So starting with your first question, in terms of net debt, obviously, and we have managed to say this many times before, we knew that a net add rate of above 100 K amount was not sustainable for the long term and it was never in the plan. We never made a plan with over a 100K, and that adds a month for the foreseeable future. Obviously, we had this very strong net add rates at the beginning of the period and leading us to get a very fast the 3 million homes connected level and then close to the 4 million. But we expected a deceleration because normally this is what's going to happen. We now are going to start into a trajectory where the overall net that's for the market will slow down a little bit and we have a slightly lower overall market number. So it's not only Oi is the overall market number. On top of that, what we saw as well is on our side is that we have started to apply much more stringent credit policies in acquisition in order to protect the customer base from delinquency and from elevated churn numbers. When you are creating the customer base and you're vastly expanding the customer base is normal and expected to have high churn numbers. But when you start to have a much larger customer base to maintain the large the high churn numbers is obviously not positive to the ultimate results. And so we have started to really pay a lot more attention to the credit policies to bring in now new customers with a much better profitability overall. And that's why we have applied new policies that will reduce slightly the number of net ads and this new trend is in line with the overall market trend. So it's nothing out of the ordinary. Obviously it is a more competitive environment. This is a second component and we know that this would occur. We expect that there will be a peak of the competitive environment, which, by the way, is the period that we're living through right now. We expect that in the coming future there will be a little bit more rationality as the players start to consolidate and start to understand that contrary to what happens in Mobile, where you basically have unused capacity being the discounted rates in the case of fiber, this is not possible in the long term. So we know that the fiber prices have to stabilize at certain points and we expect that some of this increased rationality will start to play out as well in the coming years. So we know that there will be a stabilization around a smaller rate of net adds but this is obviously expected and obviously on our part in terms of competitive actions, we have already started as well a lot of competitive actions to react because while in the past we were a net competitor in terms of just doing a very, very sharp conquests of market share. Now we know that we have a much larger base to protect and we're going to have to do actions to do that as well. So it is expected and it's a matter of the overall market trends.

On the OpEx side, obviously there is still a significant period during this year, Lucas, in which we will do streamlining of the internal operation after we closed the two transactions and after we have the two operations out the door. Because in addition to removing the costs from the two operations, the company that remains should be a much smaller company, much nimbler company in terms of cost. But we can only operate on those costs. We can only actuate on those costs once we close the two transactions, because we still have to do support for a number of operations that while the two operations were in-house and as they go out, we obviously start to address what would be shared costs with the other components of our operation that can be reduced. We have provided guidance, and I believe that we continue to maintain this guidance that we see an evolution of the future EBITDA trends for the new Oi with an EBITDA target at the end of the period of our close to 20%, so close to 20% still is our target, remains our target in getting EBITDA at the rate of close to 20% for the full new Oi operations at the end of the period. What we know as well is that this will be ramping up from a low single digits or even high low double digits or high single digits and this will be slowly and gradually increasing to get to the 20% level. So this is the combination of what happens with the EBITDA coming from legacy operations, which is a much smaller EBITDA margin and the EBITDA coming from the new course which are a higher margin. And then we expect to approach the 20%. But there's still a lot of things to do in terms of streamlining our cost structure internally as we remove all of the shared components that used to serve both mobile as well as the infrastructure and components of our business while we still have them in-house.

Lucas

Thank you, it was very clear. Thank you.

Marcelo

'OK, so now our next question comes from Carlos Sequeira, cell site analyst from BTG Pactual. So Cadu we are now open.

Carlos

'Hey, how are you? So I have two questions. Please Rodrigo. One is on Anatel arbitration and the potential concession migration. If you could give us a little more color on where the process is, what we should expect going forward in terms of the arbitration being concluded eventually, you know, Anatel regulating the potential migration. So that's question number one. And two, you just mentioned the adjustments and you showed several numbers on the adjustment. The company structure must go through now that you have shown so many large assets and my question is, you know, you showed the savings, but how much money you have to invest to make these adjustments. If you can give us an idea of how much money you would need to deploy investment to make these adjustments, please. Thank you.

Rodrigo

Thank you. Cadu. So addressing your first question in terms of arbitration and concession migration, we have mentioned, Cadu, that unfortunately those are not super short term programs because they both depend on a lengthy process of in the case of the arbitration following the rules of the arbitration chamber. And we expected at least two years of arbitration so we can start to have the first results, even at the end of this year or the beginning of next year. And this is going according to plan, the arbitration panel is defined by the arbitration, the contents are defined. And so the scope is fully defined. It was fully accepted. And now obviously there is a full right of the arbitration that has to be followed. What we expect in terms of the arbitration is that throughout the course of the arbitration, it will be possible to touch on several different topics of the arbitration, because if you recall, the arbitration has four different topics in order to produce partial results, in terms of a partial definitions by the arbitration panel and the arbitration judges to understand what should be considered as a final arbitration result. And those intermediary or partial arbitration results will help us to engage and interact with Anatel in order to do some actions that we expect anticipate some of the effects even without the end of the arbitration. There are several things in the arbitration that pertain to regulations and norms that the Anatel doesn't depend on law changes or other things to actually actuate, and this is what we expect. The second thing is that we have to link the arbitration and the concession migration. And this is true because in the concession migration, as you know, one of the key components of the concession migration is what are the costs or the investments that the concessionary is to bring to the table in order to be allowed to migrate. If you recall, the migration, it entails reducing the number of obligations and a number of other things which are negative for the concession today and that would not exist in the migration. But in exchange for that, the concessions would have to bring in new investments and to compensate that to maintain the overall equation of the concession. Obviously we know that in order to do that it is absolutely critical to have at least some of the partial results of the arbitration to show that some of those compensations would not be due and that the arbitration in our view, will be able to be carried out without any additional costs. Actually, we even believe that the arbitration will still have to occur still with some costs to be compensated, given the lack of sustainability of the whole concessions for a number of years now. So those two are linked in with everything that happened last year, with the delay in the 5G process, with all of the operations, the approval of the operations that we have to have. Obviously, the concession definitions by Anatel are also delayed and we don't see them happening before the end of this year. But when we link the two together, this means that when the arbitrate migration definition of conditions finally comes, it will have to come already taking into consideration some of the results of the arbitration. And this is what, in our view, will allow us to be on a positive side, not to have to complement anything in terms of additional investments or costs to migrate.

In addition to that, let me comment something which is important because obviously we know that it is a complex process that has multiple components. What we're trying to do, Cadu, together with Anatel and in some cases we will even go beyond that to apply for regulation changes and work for legal changes that will allow us to do that. We want to eliminate some of the negative elements of the concession costs even before we have the final definitions of migration or arbitration. And this is possible by addressing some things which have to do with the daily operation of the concession, including just to give an example, the operation of payphones and public phones. In the case of payphones, we have been, for instance, substituting the old traditional pay phones by IP phones. And those IP phones are now using broadband technology in many cases or using wireless technology in many cases, and so greatly reducing the costs of maintenance. And obviously, this all depends as well of an engagement with the agency. So the agency can allow some of those changes to happen. And so we're doing that on a daily basis. We are trying to reduce the operational costs of the concession by doing several different changes in all different fronts.And doing everything that's already permitted according to the current concession laws, even before we have the migration. And the other thing that we're doing and we have announced that and this is being carried out, is to gradually migrate all of the infrastructure we have whenever possible to technologies that are less expensive to maintain and are less subject to events such as theft and robbery as what we're doing in the case of small central offices with a very small number of customers of five of corporate customers to migrate them to wireless technology so with that, we reduce the maintenance costs, we reduce the operating costs, we reduce the theft rates, and we're doing that to eliminate and decommission central offices across the country. We obviously continue to provide the telephony service, the voice service, but based on different out the technological turn. And obviously whenever possible, we're migrating customers to fiber as well. And in addition to that, we're addressing the plans in terms of fixed telephony to understand that we should be applying some price changes to the limits of what's permitted, or else we would simply be increasing the deficits in the copper operation. So it's a combination of all of that. And with these, we expect some changes to take place during this year, even before the end result of migration arbitration, then partial arbitration results and the definition of the migration conditions next year. It's a lengthy process. We know that, but we're trying to anticipate the results of both processes as much as possible starting this year.

On your second question, Cadu, in terms of costs for segregating everything and for reducing OpEx, let me tell you that we have tried as much as possible to include all of those segregation costs and all of those investments as part of either the results last year, and so we did have some increases in expenses last year due to that or as sport of the operations themselves. So when we close the operations, we're going to have those costs included there in order to allow us to do the segregation, the separation. In addition to that, some investments are part of our budgeting for this year already. And that's why, for instance, you see in terms of the new Oi, you'll see for last year 1.8 billion reais investment in terms of the new OI without mobile and without infrastructure? And the reason for that is this part of those 1.8 billion for last year, there was a significant portion of that invested in commissioning new I.T systems to operate the new Oi, decommission legacy systems and doing the segregation so we can start to operate as an independent entity without the infrastructure. And so we have been doing those investments over time. I don't see any significant additional investment that will have to be made in order for us to capture the benefits going forward because as I mentioned, we have been including those as part of the closing of the operations themselves.

Carlos

Perfect, Rodrigo, thank you very much. Thanks a lot.

Marcelo

Thank you, Cadu. Our next question comes from Froyland Mendes, sell side analyst from J.P. Morgan. Froyland, I will now open your audio. Can you hear us?

Froyland

Hi, guys, can you hear me? Thank you very much. So could you dig deeper into the competitive actions that you're undertaking to drive broadband at its acceleration, maybe what you're doing and what do you see other peers in the market doing? And my second question is, can you share your view on how has client acquisition costs decline in broadband in the past year and what this means for your M&A strategy? Thank you.

Rodrigo

Thank you Froyland. In terms of the competitive actions, there's not one single competitive action here, but we have many, multiple fronts to actually address this, starting obviously with the one tool that we had in the bouts but decided not to apply originally, which obviously is looking towards segmented pricing. We had a nationwide pricing that was used to really ramp up the base of 200 megabits per second in 99 reais. And we have now started to use different pricing for different regions in certain cases in order to react to more competitive offers on a regional scale. And this obviously will be something that will be practiced carefully but very strongly where needed, because obviously we know that in certain cases the competition is local and we're going to have to localize our commercial strategy and we're doing that.

We have not done that before because we were growing on a nationwide basis and having good results. And so we are curtailed from doing that. But we have started to do that at the end of the year. And obviously it has some positive competitive impacts for us. In addition to that, we have been doing a significant revamp of our channels and by doing a revamp in the channels, this means including changes in our compensation or our incentive strategy and our commission strategy towards different channels. Obviously we use multiple channels to address the market, including our own channels, both direct and indirect, as well as digital channels, as well as our third party channels. And what we're doing, especially with the third party channels, is to change the incentives modes of the different channels in order for us to be more aggressive in areas which are more competitive and slightly less aggressive in areas where we're less competitive.And with that, obviously we have seen significant response and much better results on a regional scale. In addition to that, we have been further extending the capability of our channels. We are now operating much more popular channels and developing new Capillar channels in the areas where we're launching. And obviously this is helping as well. And finally, we're doing localized communications as well. Again, we come from the big launch that we had one to two years ago with the National Wine Campaigns and the single messaging to doing localized messaging and obviously guerrilla actions as well wherever needed. In addition to that, we have been emphasizing all of the superiority of our network in terms of quality and results, and obviously increasing the focus on the higher speeds.This is also another competitive action that we have been deploying. And we can see that in pretty much most of the country, we are moving away from just the basic speed as being our speed of work or speed of resistance in terms of being the centerpiece of our communications, to bringing the 400 megabits per second as the key speed for us to communicate, so it's a mix of all of those actions. And with that, we believe that we will be able to react. It's obviously a situation where we were a challenger at the beginning and now we're not a challenger anymore. We are starting to become a prominent player. And obviously with that we have to do all of those changes to our go-to market strategy in order to react. And they're being made in terms of acquisition. What we see here is we're seeing a market consolidation potential for ISP's that is happening and it's happening based on probably some metrics that in certain cases make sense. In some others they don't, but they're based primarily on a multiple of subscribers. And we believe that this is a very risky proposition because sometimes what we see is people just inflating prices based on an inquiry, not profitable, unprofitable subscribers. And obviously we don't intend to do that and that's why we said that we became more stringent in terms of our new customers to our customer base. But we believe that there is a limit to these movements because obviously there is only so much you can do with the continuous need for investments both in OpEx as well as in CapEx to be able to sustain growth. And the one movement we did to sustain that is exactly the structural separation. The structural separation allows us to be very, very focused on customer acquisition. And one ends without having to do all of the heavy lifting of all the CapEx investments required to be able to operate in the entire country. And with that, we believe that we can counter the movements of some of the regional players, which will be limited naturally by the amount of CapEx that they can invest. Obviously, over time, we expect that the V.tal will be able to address part of this market. It will become an addressable market for V.tal, but at the very beginning, we believe it's a winning strategy because we get more oxygen to continue operating in regions and to continue going after new subs. And obviously it's hard to do that when you don't have the investment capacity. And this happens to be the case in many of the cases of the smaller or regional players. Thank you.

Froyland

Thank you so much.

Marcelo

Thank you. We are now finishing the Q&A session and I will now pass the floor to

Rodrigo for his final remarks. Please Rodrigo, you can proceed.

Rodrigo

Thank you, Marcelo. And again, thank you all for participating in our call again. I once more apologize for the delay we had in having this call, but as I explained, it was due to a necessity of just dealing with the enormous complexity of all of the operations that we had. And at the same time, I will start to call the attention to what will happen next as we position as new Oi and as we revamp our entire communications to the market in terms of the metrics that we will be following for this year. And after the closing of all of the M&A operations, we expect to have a much more streamlined communications approach in terms of what we're doing and in how we communicate our results. So it's a phase that we're leaving behind. It was a necessary phase to be able to look towards the future. We, again, are very committed, very confident about what we have been doing and can do in the future. And so it's now a very short stint to be able to complete everything that we set out to do back in 2020 and to start life of the new way. So thank you all for being with us and see you again in the next quarter call.