

Telefônica

vivo

Corporate Presentation

**Investor Relations
Telefônica Brasil S.A.**

October, 2018

2018 MAIN MESSAGES TO THE MARKET

Fixed

 Transforming fixed revenue mix driven by **expressive fiber acceleration**

Mobile

 **Solid performance in postpaid and macro improvement** to accelerate mobile trends

EBITDA & OpCF

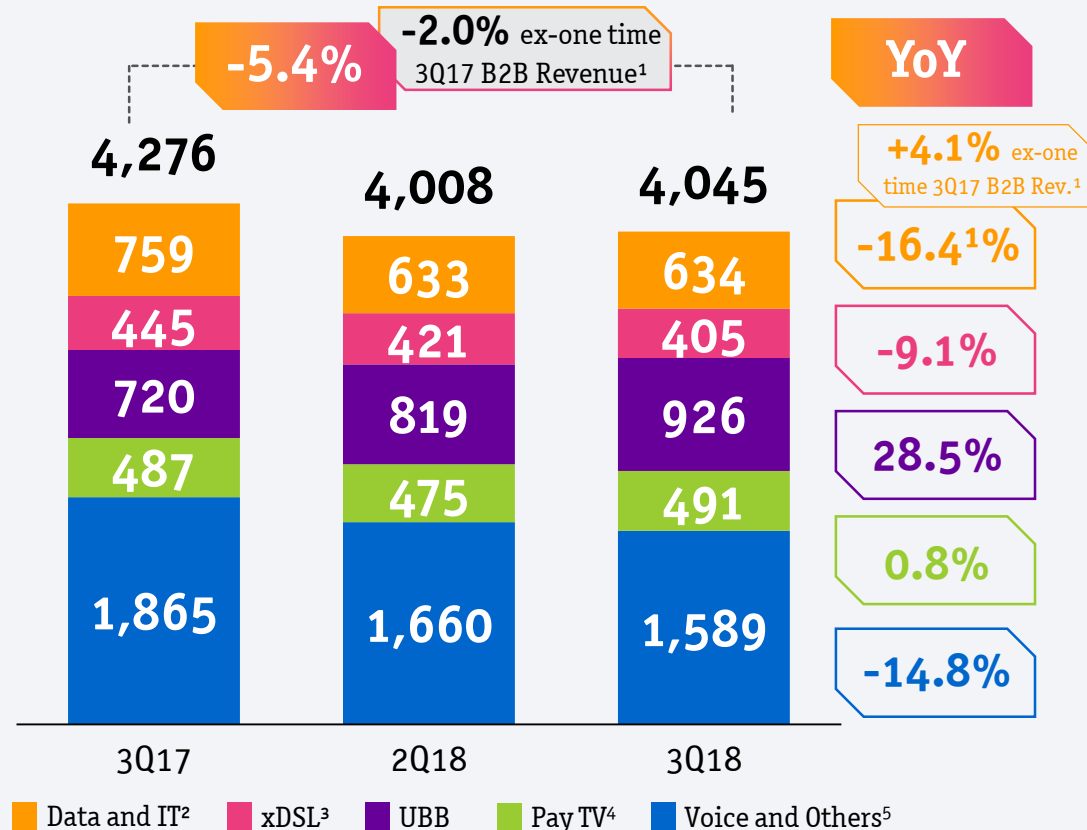
 Digitalization and smart capex allocation to continue to **improve EBITDA and OpCF margins**

Cash Flow & Shareholder Remuneration

 Strong cash flow growth boosted by cash tax gains leading to **unprecedented dividend yield**

Underlying trends improving in fixed revenues with strong results coming from fiber

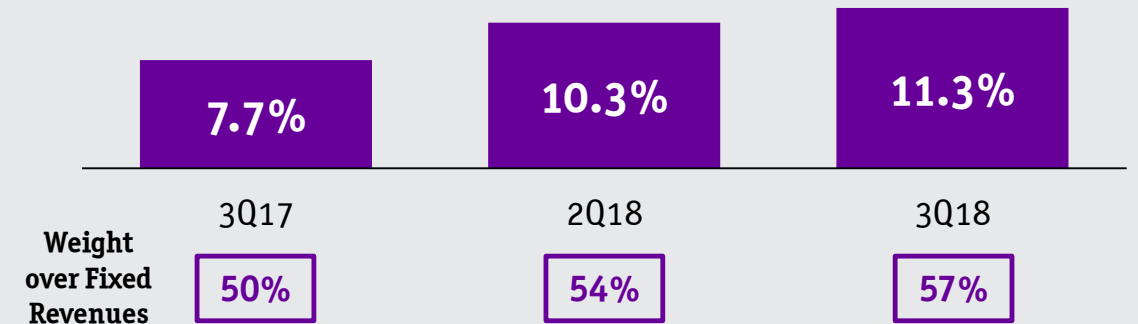
Fixed Revenues R\$ Million



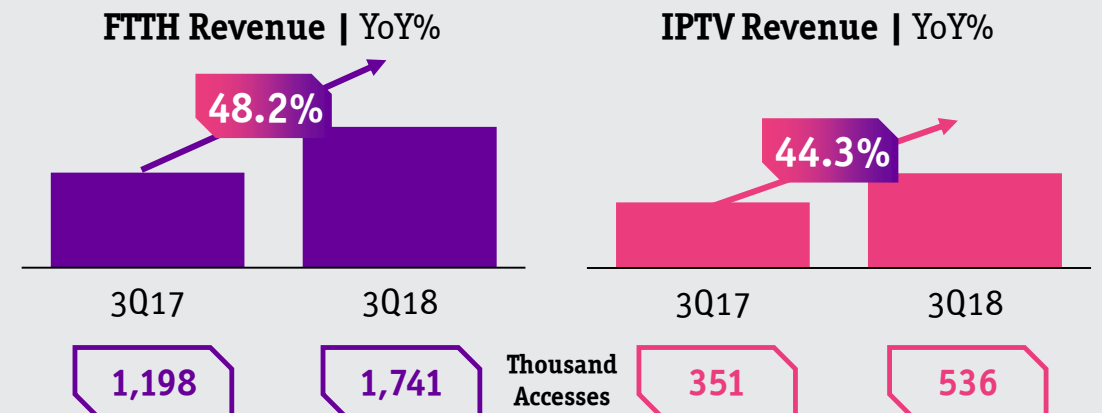
Non-voice revenues already represent **64.5% of Fixed Revenues** (+4.3 p.p. YoY)

Fixed Revenues¹ ex-voice and DTH growing double-digit once again

Fixed Revenues ex-Voice and DTH | YoY%



Revenues from FTTH-related products continue to present outstanding results

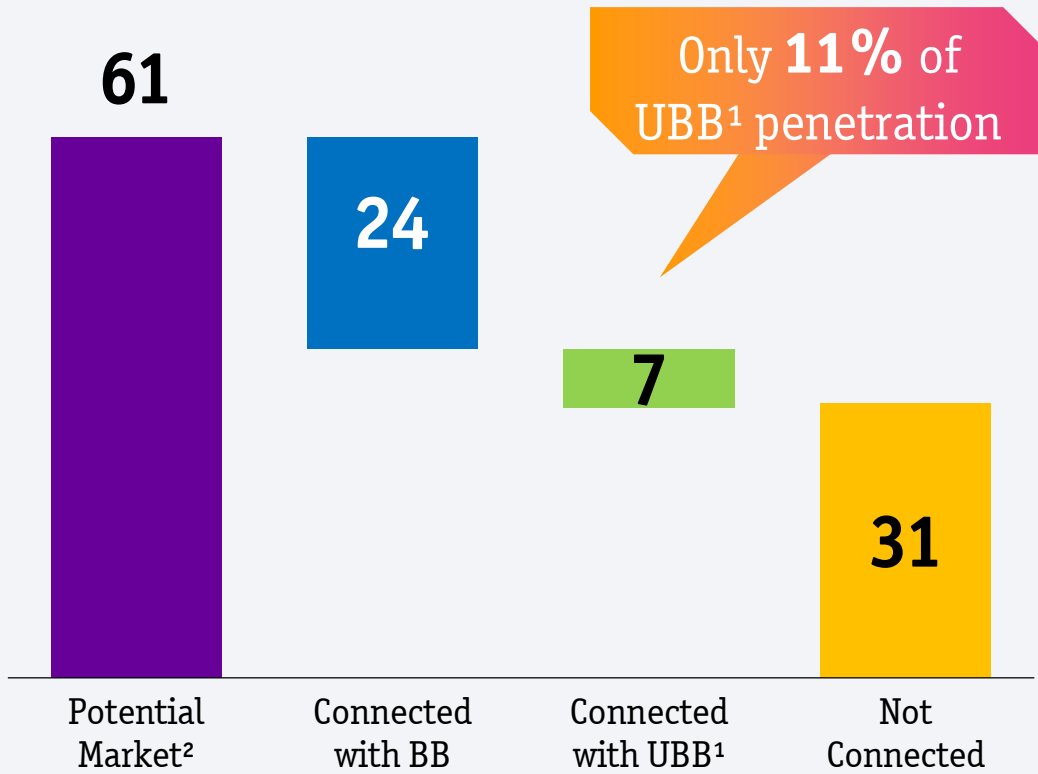


1- In 3Q17, Vivo registered R\$149.2 million in one-time revenues from a large B2B contract. 2- Corporate Data and IT. 3- Includes other broadband revenues (VAS and installation fee). 4- Includes DTH and IPTV. 5- Includes voice inside and outside bundles, interconnection and other services.

Remarkable UBB opportunity in Brazil, as penetration is still extremely low and demand is increasingly high...

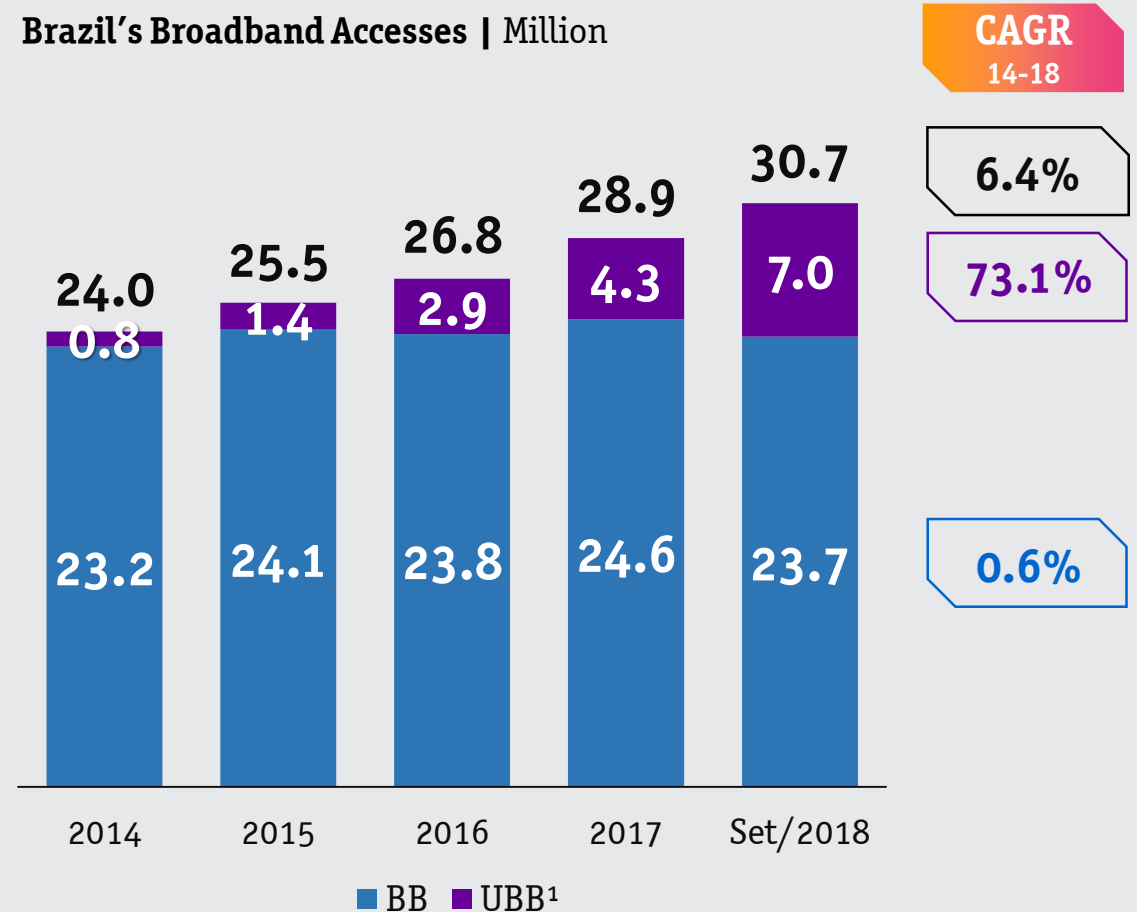
UBB¹ penetration in Brazil still very low...

Composition of Brazilian Fixed Broadband Market | Million



...but the growth rate of connections >34Mbps is impressive, denoting the high demand for the service

Brazil's Broadband Accesses | Million



...allowing us to capture an **excellent set of results in FTTH cities launched in 2017 and 2018**

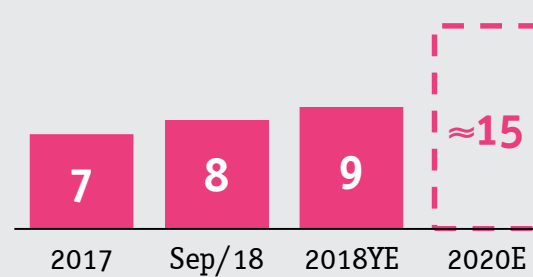
Outstanding results in the 16 FTTH cities launched in 2017, confirming unique UBB opportunity in Brazil...

KPIs from cities launched in 2017	Average	Best Case
BB ARPU (R\$)	69	76
	2P ARPU above R\$100 and 3P ARPU above R\$149	
BB Share	36%	81%
UBB Share	73%	100%

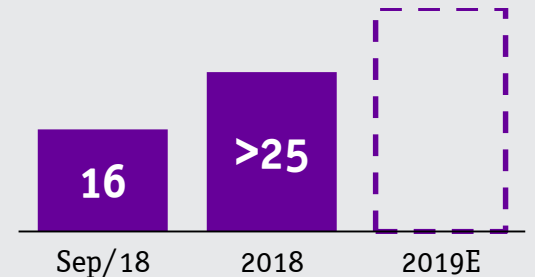
Take-up over HPs in some cities launched in 2017 already reaching long-term target (>30%), with an average of 42% of penetration over installed capacity

...and the cities launched in 2018 are performing even better as we optimize deployment & operations

FTTH HPs | Million



New FTTH Cities



Faster deployment of FTTH, which will allow us to build **+1MM HPs** until the end of the year, **with enhanced performance of salesforce**, leading to strong results in cities launched this year

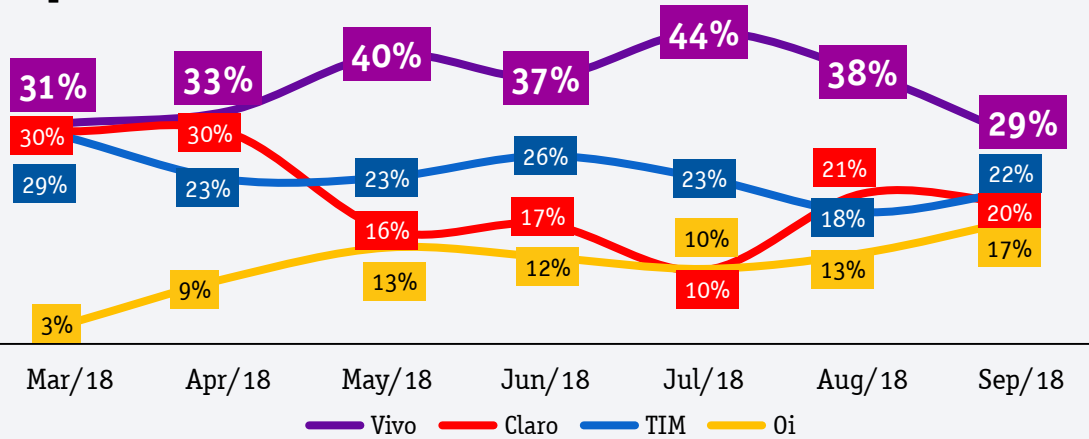
As a result, take-up over HPs beating the internal expectations in almost every city

Average BB ARPU of cities launched in 2018 reaching R\$72, 5% higher than average ARPU of cities launched in 2017 and 21% higher than average BB ARPU

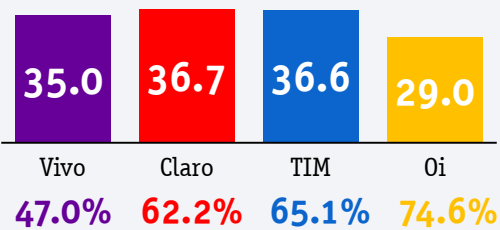
Mobile trends expected to improve due to strong operating performance in postpaid and actions taken to capture future growth

Unique positioning and value proposition leading to unrivaled operating results

Postpaid Share of Net Adds 2018



Prepaid | MM Accesses and % Total



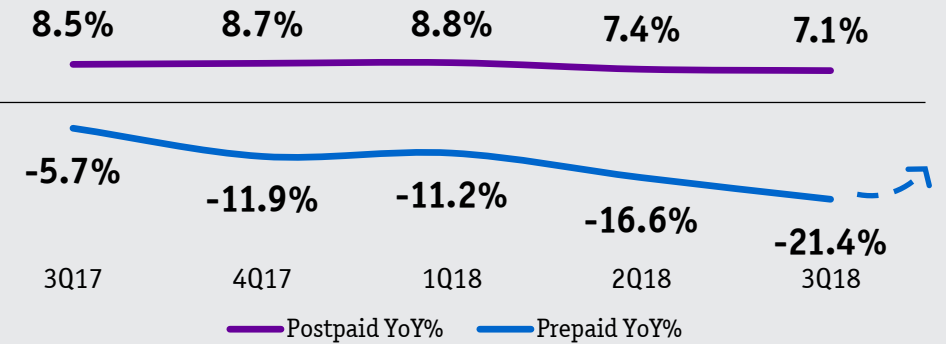
Vivo's prepaid base a similar size compared to Claro's and TIM's, denoting a strong migration potential

Reduced price premium to defend on entry offers (R\$¹)

	Pre	Hybrid	Post
vivo	10	45	120
Claro	10	45	120
TIM	10	45	120
oi	10	45	85

Vivo is taking actions which should produce immediate improvements in MSR trends

Revenue Growth | YoY%



Drivers of short term improvement:

- _Price increases and strong net adds in postpaid
- _Repositioning of prepaid offers and launch of **Giga Chip** with positive early results

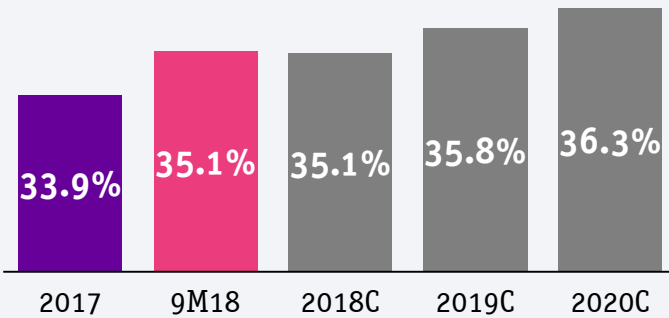
Future opportunities:

- _Partnerships with **relevant OTT providers**
- _Clear **4G monetization opportunity** as only 53% of our customer base uses 4G, while we cover 87% of the population
- _Potential upside with **expected macro improvement**

Digitalization and smart capex allocation to continue to improve EBITDA and OpCF margins

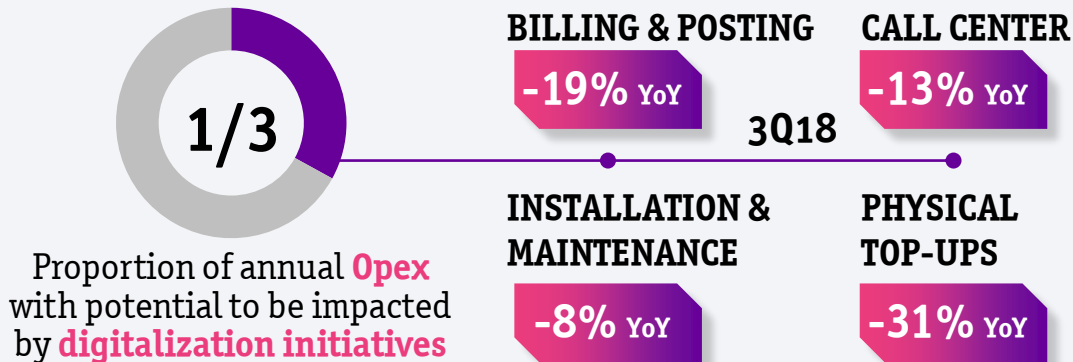
Strong EBITDA margin evolution on the back of cost reduction through digitalization and simplification

EBITDA Margin | Real and Consensus



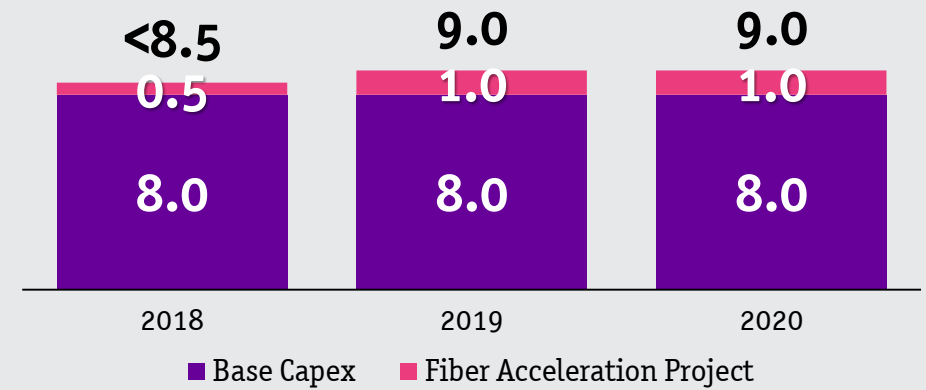
We are comfortable with sell-side consensus for EBITDA Margin, **confident we can over-deliver on projections**

Digitalization and simplification efforts already impacting positively our cost dynamics, resulting in the decrease of important lines



Investments focused on cutting-edge technologies, improving returns and customer experience

Capex | R\$ Billion



- _ **Smart Capex allocation** should already lead to savings in 2018
- _ **Reducing investments in legacy technologies** such as 2G, 3G, Copper and DTH
- _ **R\$7 billion** in 3 years to be invested in **FTH expansion**
- _ **Robust investment in 4G and 4G+** focused especially in **enhancing quality** for us to continue to provide the best mobile experience
- _ **R\$3 billion** in 3 years invested to **transform our IT platform**

In 3Q18, we registered a new tax asset of R\$ 2.4 bn related to contributions of PIS/COFINS over ICMS made by Vivo between 2004 and 2013

Impact from decisions for TELESP and Vivo on income statement and balance sheet

Record Net Income to be registered in 2018 to produce unique level of remuneration

R\$ Billion	2Q18: TELESP (2003-2014)	3Q18: Vivo (2004-2013)	Total
EBITDA	2.0	1.4	3.4
Financial Result	1.8	1.0	2.8
Tax Asset (Balance Sheet)	3.8	2.4	6.2

_ Impact on Income Statement in 2Q and 3Q18 generating a **relevant additional profit**

_ **Potential for unprecedented shareholder remuneration** from distributions based on 2018 net income

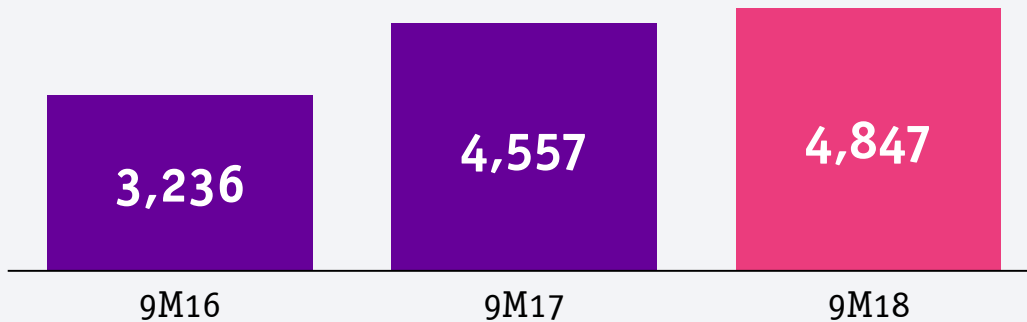
_ Other processes still waiting for final judgement **could generate extra gains in the future**

Tax assets to compensate payment of federal taxes during the next years generating an incremental source of cash while allowing for stronger shareholder remuneration

Strong cash flow growth boosted by cash tax gains leading to **record net income and unprecedented dividend yield**

Free Cash Flow generation growing on a yearly basis even with higher level of investments in 2018...

Free Cash Flow from Business Activities | R\$ Million



...and future evolution will be positively impacted by tax gains from 2Q and 3Q18

FCF to be boosted in around R\$2 billion per year going forward due to tax assets registered in 2Q and 3Q18

Cash tax gains represent **more than 8% of current market cap**

Extra proceeds more than compensate additional Capex envelope defined for fiber acceleration project (2018-20)

9M18 Net Income 61% higher than FY2017 figure, with potential to beat 2018 consensus

Net Income | R\$ Million, Real and Consensus



Unprecedented dividend yield coming from distributions based on 2018 net income, **considerably above Brazil's risk free rate**

Net Income in 2018 to beat current sell-side consensus estimations

R\$3.2 billion of Interest on Capital already declared YTD

Backups

.....

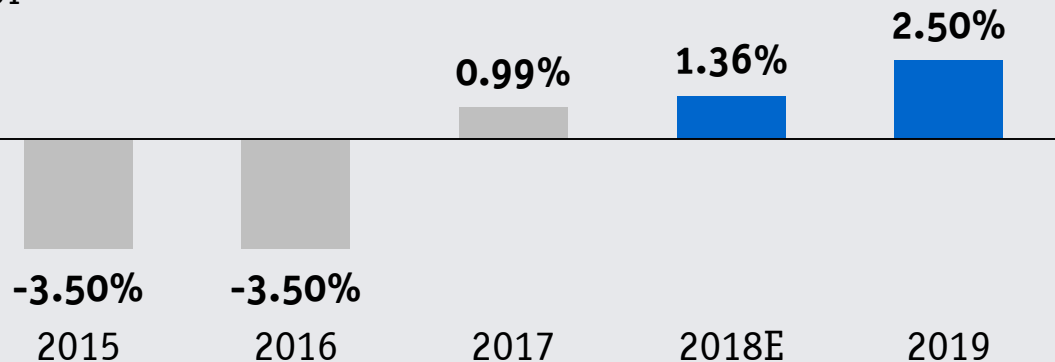




Expectations for an economic recovery represent a potential upside...

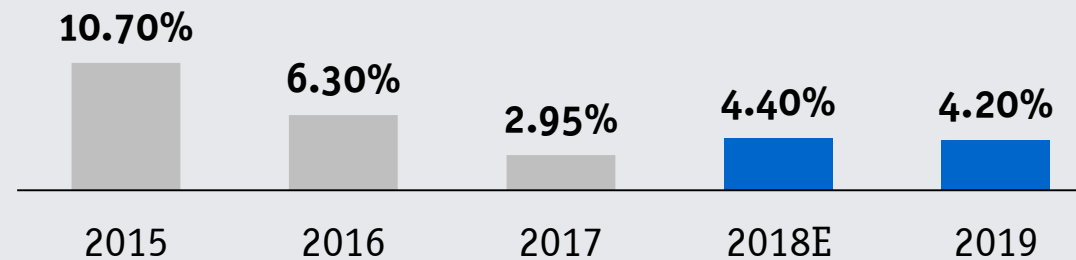
GDP Growth¹

% YoY



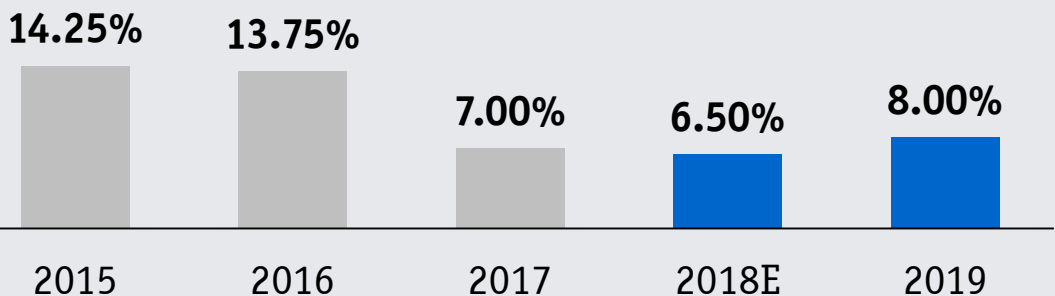
Inflation¹

% YoY



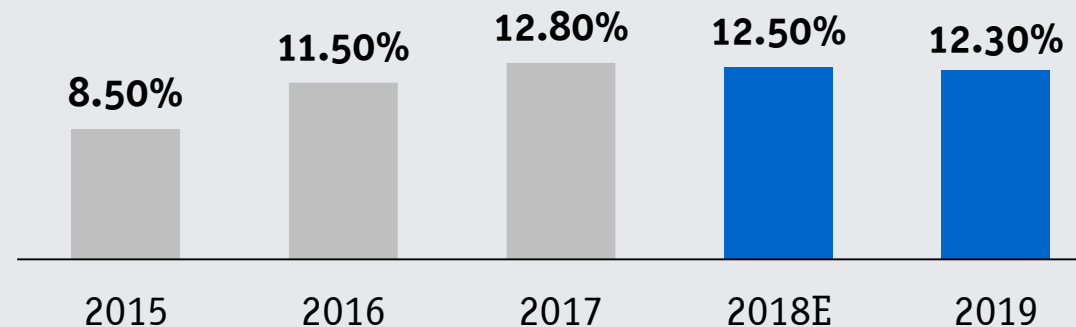
Interest Rate¹

% annual rate



Unemployment²

%

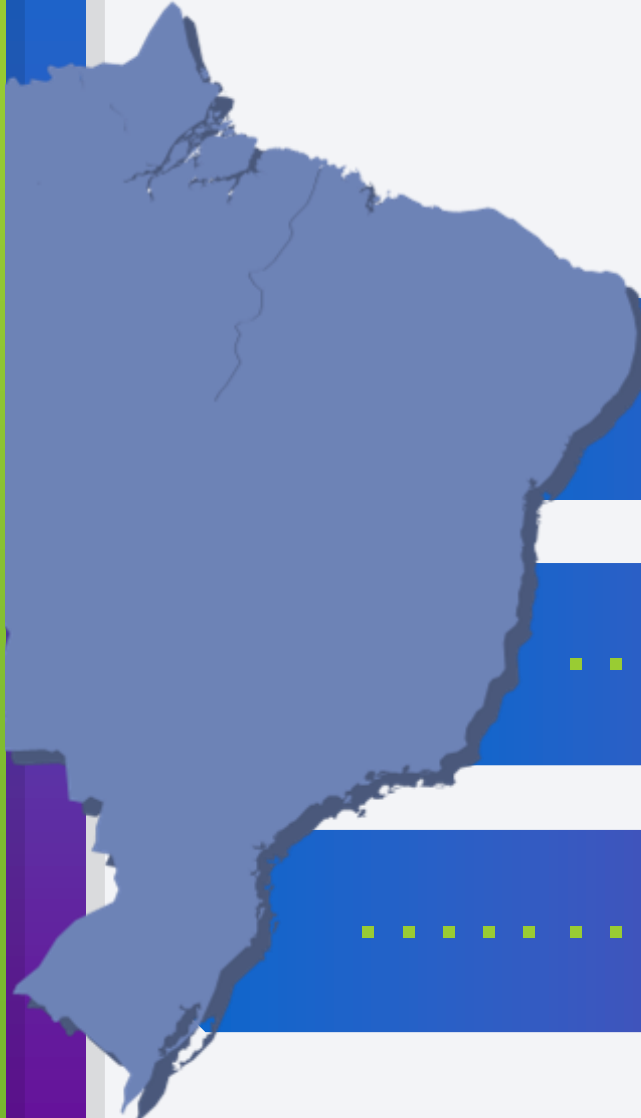


1) Source: Focus (November 1st, 2018 – GDP numbers were revised by IBGE);

2) Source: Telefônica Brasil estimates.



...while a **regulatory simplification trend** might provide an additional upside



Potential to **optimize** real estate portfolio



Reduction of concession's obligations



Revision of quality goals

Highlights – 3Q18

Consolidated in R\$ million	2018 Pro forma (ex-IFRS 15) ¹				2018 Data (Reported)			
	3Q18	Δ% y-o-y	9M18	Δ% y-o-y	3Q18	Δ% y-o-y	9M18	Δ% y-o-y
Net Operating Revenues	10,777.2	(1.0)	32,354.1	0.6	10,764.8	(1.1)	32,377.2	0.6
Net Operating Service Revenues	10,338.3	(2.8)	31,184.6	(0.7)	10,274.4	(3.4)	31,022.8	(1.2)
Net Mobile Revenues	6,732.0	1.8	20,277.0	3.4	6,719.6	1.7	20,300.1	3.5
Net Mobile Service Revenues	6,293.1	(1.0)	19,107.6	1.4	6,229.2	(2.0)	18,945.7	0.6
Net Fixed Revenues	4,045.2	(5.4)	12,077.1	(3.9)	4,045.2	(5.4)	12,077.1	(3.9)
Net Handsets Revenues	438.9	72.4	1,169.5	51.3	490.4	92.6	1,354.4	75.2
Operating Costs	(6,010.7)	(16.6)	(18,639.2)	(13.1)	(5,984.2)	(17.0)	(18,598.7)	(13.3)
Recurring Operating Costs²	(6,905.3)	(4.2)	(20,984.5)	(2.2)	(6,878.8)	(4.6)	(20,944.0)	(2.4)
EBITDA	4,766.5	29.6	13,714.9	27.9	4,780.6	30.0	13,778.5	28.5
EBITDA Margin	44.2%	10.5 p.p.	42.4%	9.1 p.p.	44.4%	10.6 p.p.	42.6%	9.2 p.p.
Recurring EBITDA²	3,871.9	5.3	11,369.6	6.1	3,886.0	5.7	11,433.2	6.7
Recurring EBITDA Margin²	35.9%	2.1 p.p.	35.1%	1.8 p.p.	36.1%	2.3 p.p.	35.3%	2.0 p.p.
Net Income	3,168.0	159.1	7,399.7	139.3	3,177.3	159.9	7,441.6	140.7
Capex (ex-Licenses)	2,393.8	9.4	6,079.9	14.0	2,393.8	9.4	6,079.9	14.0
Operating Cash Flow (EBITDA - Capex)	2,372.7	59.3	7,635.0	41.8	2,386.8	60.3	7,698.6	42.9
Recurring Operating Cash Flow²	1,478.0	(0.8)	5,289.7	(1.8)	1,492.1	0.2	5,353.3	(0.6)
Total Accesses (thousand)	96,718	(0.9)	96,718	(0.9)	96,718	(0.9)	96,718	(0.9)
Total Mobile Accesses	74,432	(0.2)	74,432	(0.2)	74,432	(0.2)	74,432	(0.2)
Total Fixed Accesses	22,285	(3.4)	22,285	(3.4)	22,285	(3.4)	22,285	(3.4)

1) New accounting standard in force since January 2018, which requires revenue to be recognized based on the contract with the customer, not necessarily aligned with billing. For Vivo, revenue recognition of mobile offers with handset subsidy will change, as the subsidy will now be distributed between services and handset. In addition, certain costs to acquire customers through contract will now have to be capitalized if the amortization period is >12 months;

2) Excludes the following non-recurring items: a positive effect of R\$1,381.7 million, due to final judgment in the Superior Court of Justice, in favor of the Company, recognizing the right to deduct ICMS tax from the basis of calculation of PIS/COFINS contributions related to Vivo's operations from 2004 to 2013; and an expense of R\$487.1 million related to non-recurring tax contingencies recognized in 3Q18.

Financial Figures: Mobile and Fixed – 3Q18

Consolidated in R\$ million	2018 Pro forma (ex-IFRS 15)				2018 Data (Reported)			
	3Q18	Δ% y-o-y	9M18	Δ% y-o-y	3Q18	Δ% y-o-y	9M18	Δ% y-o-y
Net Operating Mobile Revenues	6,732.0	1.8	20,277.0	3.4	6,719.6	1.7	20,300.1	3.5
Net Mobile Service Revenues	6,293.1	(1.0)	19,107.6	1.4	6,229.2	(2.0)	18,945.7	0.6
Outgoing Voice	1,030.0	(28.1)	3,272.1	(29.6)	1,035.0	(27.8)	3,290.2	(29.2)
Interconnection	254.3	(14.2)	805.7	0.4	254.3	(14.2)	805.7	0.4
Data and Digital Services	5,009.7	8.2	15,026.2	12.2	4,940.8	6.7	14,846.3	10.9
Messaging P2P	284.9	(18.7)	879.9	(19.4)	284.9	(18.7)	879.9	(19.4)
Internet	2,989.0	(9.1)	9,176.5	(10.2)	2,920.1	(11.2)	8,996.6	(11.9)
Digital Services	1,735.7	75.3	4,969.8	138.5	1,735.7	75.3	4,969.8	138.5
Other Services	(0.9)	(80.0)	3.5	n.a.	(0.9)	(80.0)	3.5	n.a.
Net Handset Revenues	438.9	72.4	1,169.5	51.3	490.4	92.6	1,354.4	75.2
% Data and Digital Services Revenues / MSR	79.6%	6.7 p.p.	78.6%	7.6 p.p.	79.3%	6.5 p.p.	78.4%	7.3 p.p.

Consolidated in R\$ million	2018 Pro forma (ex-IFRS 15)				2018 Data (Reported)			
	3Q18	Δ% y-o-y	9M18	Δ% y-o-y	3Q18	Δ% y-o-y	9M18	Δ% y-o-y
Net Operating Fixed Revenues	4,045.2	(5.4)	12,077.1	(3.9)	4,045.2	(5.4)	12,077.1	(3.9)
Voice	1,388.2	(16.3)	4,411.3	(15.7)	1,388.2	(16.3)	4,411.3	(15.7)
Interconnection	47.2	14.2	128.5	(5.1)	47.2	14.2	128.5	(5.1)
Broadband¹	1,330.9	14.2	3,801.0	14.3	1,330.9	14.2	3,801.0	14.3
UBB	925.9	28.5	2,536.8	23.6	925.9	28.5	2,536.8	23.6
xDSL	404.9	(9.1)	1,264.2	(0.8)	404.9	(9.1)	1,264.2	(0.8)
Corporate Data and IT	634.4	(16.4)	1,856.3	(4.7)	634.4	(16.4)	1,856.3	(4.7)
Pay TV	490.6	0.8	1,437.3	(0.0)	490.6	0.8	1,437.3	(0.0)
IPTV	177.8	44.3	468.5	55.1	177.8	44.3	468.5	55.1
DTH	312.8	(13.9)	968.8	(14.7)	312.8	(13.9)	968.8	(14.7)
Other Services	154.0	(6.5)	442.7	(8.6)	154.0	(6.5)	442.7	(8.6)
% Non-Voice Revenues² / Net Operating Fixed Revenues	64.5%	4.3 p.p.	62.4%	5.1 p.p.	64.5%	4.3 p.p.	62.4%	5.1 p.p.

1) Broadband Revenue includes residential customers and SMEs;

2) Non-voice revenue includes revenue from Broadband, Corporate Data and IT, Pay TV and Other Services.

Mobile Operating Figures – 3Q18

Thousand	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Total Mobile Accesses	74,432	74,562	(0.2)	75,262	(1.1)	74,432	74,562	(0.2)
Postpaid	39,415	35,664	10.5	38,435	2.5	39,415	35,664	10.5
M2M	7,637	5,854	30.5	7,114	7.4	7,637	5,854	30.5
Prepaid	35,017	38,897	(10.0)	36,827	(4.9)	35,017	38,897	(10.0)
Market Share	31.8%	30.9%	0.8 p.p.	32.0%	(0.2) p.p.	31.8%	30.9%	2.7 p.p.
Postpaid	41.1%	42.1%	(1.0) p.p.	41.2%	(0.1) p.p.	41.1%	42.1%	(2.3) p.p.
M2M	42.5%	40.4%	2.1 p.p.	42.1%	0.4 p.p.	42.5%	40.4%	5.1 p.p.
Net Additions	(830)	227	n.a.	164	n.a.	(508)	784	n.a.
Postpaid	980	981	(0.1)	936	4.7	2,644	2,274	16.3
Market Share of Postpaid Net Additions	36.5%	35.1%	3.8	36.7%	(0.7)	33.5%	42.5%	(21.2)
Market Penetration¹	112.0%	116.1%	(4.1) p.p.	112.5%	(0.5) p.p.	112.0%	116.1%	(3.5) p.p.
Monthly Churn	3.7%	3.4%	0.3 p.p.	3.0%	0.7 p.p.	3.3%	3.4%	(3.0) p.p.
Postpaid ex. M2M	1.8%	1.8%	0.0 p.p.	1.7%	0.0 p.p.	1.7%	1.7%	(1.6) p.p.
Prepaid	5.6%	4.8%	0.8 p.p.	4.2%	1.4 p.p.	4.8%	4.7%	1.5 p.p.
ARPU (R\$/month)²	27.9	28.4	(1.7)	28.3	(1.4)	28.3	28.2	0.3
Voice	5.7	7.7	(26.1)	6.1	(6.4)	6.0	8.2	(25.9)
Data	22.2	20.7	7.4	22.3	(0.1)	22.2	20.1	11.0
Postpaid ex. M2M ARPU²	51.5	51.5	0.0	52.3	(1.6)	52.1	52.0	0.2
Prepaid ARPU²	11.6	13.5	(14.4)	11.7	(1.2)	12.1	13.4	(10.1)
M2M ARPU²	2.6	2.8	(6.9)	2.7	(3.7)	2.7	3.0	(11.5)

1) Source: Teleco – August 2018. 2) Pro-forma data, excluding the effects of IFRS 15.

Fixed Operating Figures – 3Q18

Thousand	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Total Fixed Accesses	22,285	23,077	(3.4)	22,537	(1.1)	22,285	23,077	(3.4)
Fixed Voice Accesses	13,210	14,007	(5.7)	13,460	(1.9)	13,210	14,007	(5.7)
Residential	8,314	9,059	(8.2)	8,536	(2.6)	8,314	9,059	(8.2)
Corporate	4,453	4,503	(1.1)	4,482	(0.6)	4,453	4,503	(1.1)
Others	443	445	(0.5)	442	0.2	443	445	(0.5)
Fixed Broadband	7,475	7,452	0.3	7,463	0.2	7,475	7,452	0.3
UBB	4,917	4,472	9.9	4,792	2.6	4,917	4,472	9.9
FTTC	3,176	3,275	(3.0)	3,218	(1.3)	3,176	3,275	(3.0)
FTTH	1,741	1,198	45.4	1,574	10.6	1,741	1,198	45.4
Others	2,558	2,980	(14.1)	2,671	(4.2)	2,558	2,980	(14.1)
Pay TV	1,601	1,618	(1.1)	1,614	(0.9)	1,601	1,618	(1.1)
IPTV	536	351	52.7	486	10.2	536	351	52.7
DTH	1,064	1,267	(16.0)	1,128	(5.6)	1,064	1,267	(16.0)
Voice ARPU (R\$/month)	34.7	39.3	(11.6)	36.4	(4.6)	36.1	41.0	(11.8)
Broadband ARPU (R\$/month)	59.4	52.2	13.7	55.4	7.1	56.7	50.1	13.1
Pay TV ARPU (R\$/month)	101.5	99.2	2.3	98.9	2.6	99.8	96.3	3.6

IFRS Income Statement – 3Q18

Consolidated in R\$ million	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Gross Operating Revenue	16,328.9	16,582.8	(1.5)	16,343.8	(0.1)	49,007.1	49,706.4	(1.4)
Gross Operating Mobile Revenue	10,157.4	10,025.7	1.3	10,253.2	(0.9)	30,620.5	30,376.6	0.8
Gross Operating Fixed Revenue	6,171.5	6,557.1	(5.9)	6,090.6	1.3	18,386.6	19,329.8	(4.9)
Net Operating Revenue	10,764.8	10,885.9	(1.1)	10,823.4	(0.5)	32,377.2	32,173.2	0.6
Net Operating Mobile Revenue	6,719.6	6,610.1	1.7	6,815.7	(1.4)	20,300.1	19,608.4	3.5
Net Operating Fixed Revenue	4,045.2	4,275.8	(5.4)	4,007.7	0.9	12,077.1	12,564.9	(3.9)
Operating Costs	(5,984.2)	(7,209.0)	(17.0)	(5,620.0)	6.5	(18,598.7)	(21,454.0)	(13.3)
Personnel	(938.2)	(948.4)	(1.1)	(1,064.2)	(11.8)	(2,961.7)	(2,776.4)	6.7
Costs of Services Rendered	(2,735.4)	(2,906.8)	(5.9)	(2,922.6)	(6.4)	(8,434.8)	(8,679.8)	(2.8)
Interconnection	(317.7)	(351.9)	(9.7)	(391.1)	(18.8)	(992.9)	(1,069.5)	(7.2)
Taxes and Contributions	(372.8)	(448.2)	(16.8)	(428.3)	(13.0)	(1,214.8)	(1,355.1)	(10.4)
Third-party Services	(1,346.3)	(1,426.9)	(5.6)	(1,327.3)	1.4	(4,042.7)	(4,230.8)	(4.4)
Others	(698.6)	(679.8)	2.8	(775.9)	(10.0)	(2,184.4)	(2,024.4)	7.9
Cost of Goods Sold	(595.3)	(483.9)	23.0	(591.1)	0.7	(1,670.8)	(1,421.3)	17.6
Commercial Expenses	(2,202.0)	(2,366.9)	(7.0)	(2,291.8)	(3.9)	(6,721.5)	(6,969.1)	(3.6)
Provision for Bad Debt	(402.2)	(380.4)	5.7	(368.7)	9.1	(1,168.9)	(1,108.9)	5.4
Third-party Services	(1,741.8)	(1,890.6)	(7.9)	(1,800.2)	(3.2)	(5,277.8)	(5,581.1)	(5.4)
Others	(58.0)	(95.9)	(39.5)	(122.9)	(52.8)	(274.8)	(279.1)	(1.5)
General and Administrative Expenses	(384.2)	(378.2)	1.6	(383.6)	0.2	(1,141.8)	(1,110.4)	2.8
Other Net Operating Revenue (Expenses)	870.9	(124.8)	n.a.	1,633.3	(46.7)	2,331.9	(497.0)	n.a.
EBITDA	4,780.6	3,676.9	30.0	5,203.4	(8.1)	13,778.5	10,719.2	28.5
EBITDA Margin %	44.4%	33.8%	10.6 p.p.	48.1%	(3.7) p.p.	42.6%	33.3%	9.2 p.p.
Depreciation and Amortization	(2,034.7)	(1,962.0)	3.7	(2,012.9)	1.1	(6,045.9)	(5,862.8)	3.1
EBIT	2,745.9	1,714.9	60.1	3,190.5	(13.9)	7,732.6	4,856.4	59.2
Net Financial Income	653.7	(170.5)	n.a.	1,471.1	(55.6)	1,952.1	(725.2)	n.a.
Gain (Loss) on Investments	(5.5)	0.0	n.a.	0.1	n.a.	(4.9)	1.3	n.a.
Taxes	(216.8)	(321.7)	(32.6)	(1,495.4)	(85.5)	(2,238.2)	(1,040.7)	115.1
Net Income	3,177.3	1,222.7	159.9	3,166.3	0.3	7,441.6	3,091.8	140.7

Debt – 3Q18

September 2018						
Consolidated	Currency	Interest Rate	Due Date	Short-Term	Long-Term	Total
Local Currency						
BNDES	UR LTIR	LTIR + 0.00% to 3.38%	2023	592.4	508.4	1,100.8
BNDES	R\$	2.5% to 6.0%	2023	70.7	112.1	182.8
BNDES	R\$	SELIC D-2 + 2.32%	2023	78.8	261.8	340.6
BNB	R\$	7.0% to 10.0%	2022	15.1	43.5	58.6
Confirming	R\$	103.3% to 111.3% of CDI	2019	484.0	-	484.0
Debentures 4th Issue - Series 3	R\$	IPCA + 4.0%	2019	1.5	40.7	42.2
Debentures 1st Issue - Minas Comunica	R\$	IPCA + 0.5%	2021	26.3	52.5	78.7
Debentures 5th Issue - Single Series	R\$	108.25% of CDI	2022	18.1	1,997.4	2,015.6
Debentures 6th Issue - Single Series	R\$	100.00% of CDI + 0.24%	2020	22.4	999.7	1,022.1
Financial Leases	R\$	-	2033	58.2	318.3	376.5
Contingent Consideration	R\$	-	2025	-	461.0	461.0
Foreign Currency						
BNDES	UMBND	ECM+ 2.38%	2019	142.6	-	142.6
Total				1,510.1	4,795.5	6,305.6

Consolidated in R\$ million	09/30/2018	12/31/2017	09/30/2017	September 2018	
				Year	Amount (R\$ million)
Short-Term Debt	1,510.1	3,033.4	3,408.2		
Long-Term Debt	4,795.5	5,428.4	4,648.4		
Total Debt	6,305.6	8,461.8	8,056.6	2019	194.3
Cash and Cash Equivalents ¹	(3,726.0)	(4,062.1)	(5,582.7)	2020	1,420.1
Net Derivatives Position	(111.2)	(143.8)	(18.8)	2021	1,290.5
Contingent Consideration Guarantee Asset ²	(461.0)	(446.1)	(440.4)	2022	1,237.9
Net Debt	2,007.4	3,809.9	2,014.7	After 2022	652.7
Net Debt / EBITDA ³	0.11	0.26	0.14	Total	4,795.5

1) Includes the investment in BNB given as a guarantee for the loan from that bank. 2) Alignment of the classification criterion for the asset backing the contingent consideration to calculate pro-forma net debt. 3) LTM EBITDA.

Effects of IFRS 15 on our 3Q18 results

R\$ million	Pro forma ¹		IFRS Adjustments	Reported ¹	
	3Q18 w/o IFRS	Δ% YoY		3Q18 w/ IFRS	Δ% YoY
Net Operating Revenue	10,777.2	-1.0%	-12.4	10,764.8	-1.1%
Net Service Revenue	10,338.4	-2.8%	-63.9	10,274.5	-3.4%
Net Mobile Service Revenue	6,293.1	-1.0%	-63.9	6,229.2	-2.0%
Net Fixed Revenue	4,045.3	-5.4%	0.0	4,045.3	-5.4%
Net Handset Revenue	438.9	72.4%	51.5	490.4	92.6%
Recurring Operating Costs	-6,905.3	-4.2%	26.5	-6,878.8	-4.6%
Personnel	-939.9	-0.9%	1.7	-938.2	-1.1%
Commercial Expenses	-2,226.8	-5.9%	24.8	-2,202.0	-7.0%
Recurring EBITDA	3,871.9	5.3%	14.1	3,886.0	5.7%
Recurring EBITDA Margin	35.9%	2.1 p.p.	0.2 p.p.	36.1%	2.3 p.p.
Net Income	3,168.0	159.1%	9.3	3,177.3	159.9%

IFRS 15: new accounting standard in force since January 2018, which requires **revenue to be recognized based on the contract with the customer, not necessarily aligned with billing**. For Vivo, revenue recognition of mobile offers with handset subsidy will change, as the **subsidy will now be distributed between services and handset**. In addition, certain costs to acquire a customer through a contract will now have to be capitalized if the amortization period is >12 months.

Telefonica

vivo

FOR FURTHER INFORMATION:
INVESTOR RELATIONS



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