

Results

1Q19



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

May, 2019 >

Telefônica

vivo



➤ DISCLAIMER



This presentation may contain forward-looking statements concerning future prospects and objectives regarding growth of the subscriber base, a breakdown of the various services to be offered and their respective results



The exclusive purpose of such statements is to indicate how we intend to expand our business and they should therefore not be regarded as guarantees of future performance



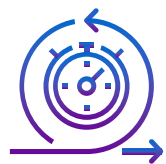
Our actual results may differ materially from those contained in such forward-looking statements, due to a variety of factors, including Brazilian political and economic factors, the development of competitive technologies, access to the capital required to achieve those results, and the emergence of strong competition in the markets in which we operate



For a better understanding, we are presenting pro forma numbers for 2019 disregarding impacts from the adoption of IFRS 16, unless stated otherwise. In addition, YoY variations of 2018 results disregards impacts from the adoption of IFRS 15 in that given year, unless stated otherwise



➤ 1Q19 HIGHLIGHTS



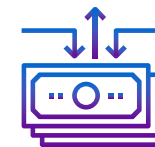
Key Segments



Revenues



Profitability



Cash

+9.4%

Postpaid Customers YoY

Human Postpaid
Revenues (+8.0% YoY)



+44.1%

FTTH Customers YoY

FTTH Revenues
(+49.6% YoY)

+1.7%

YoY

Total Revenues



+1.6%

YoY

Mobile Service
Revenues

35.6%

EBITDA Margin

EBITDA
(+2.9% YoY)



+22.2%

YoY

Net Income
(R\$ 1.3 bn)

+16.1%

YoY

Free Cash Flow
(R\$ 1.2 bn)



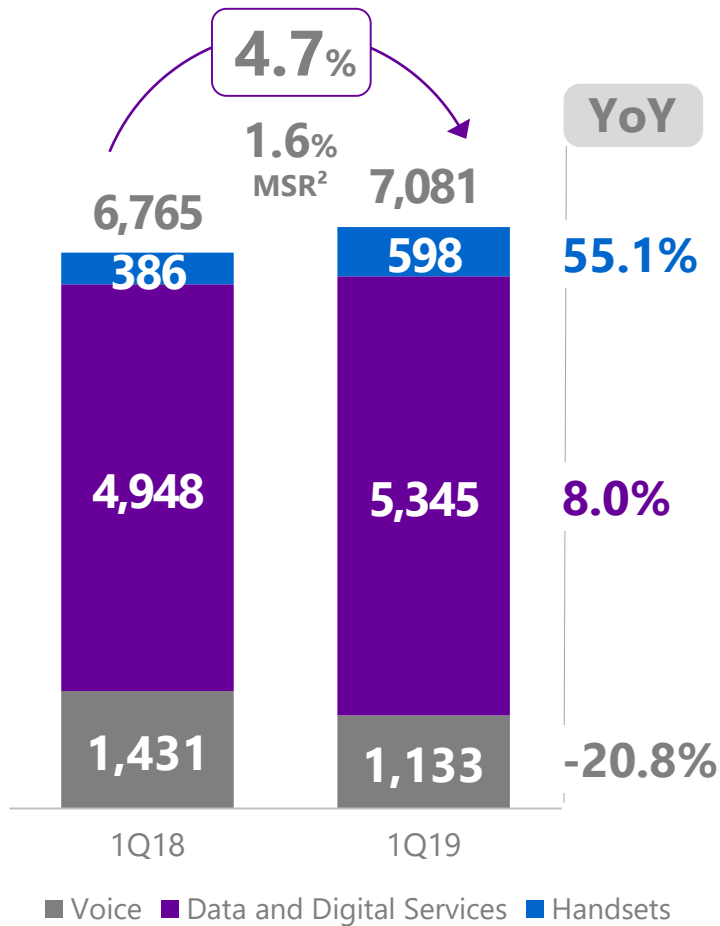
1.3bn

R\$

Interest on Capital
declared up to Apr/19

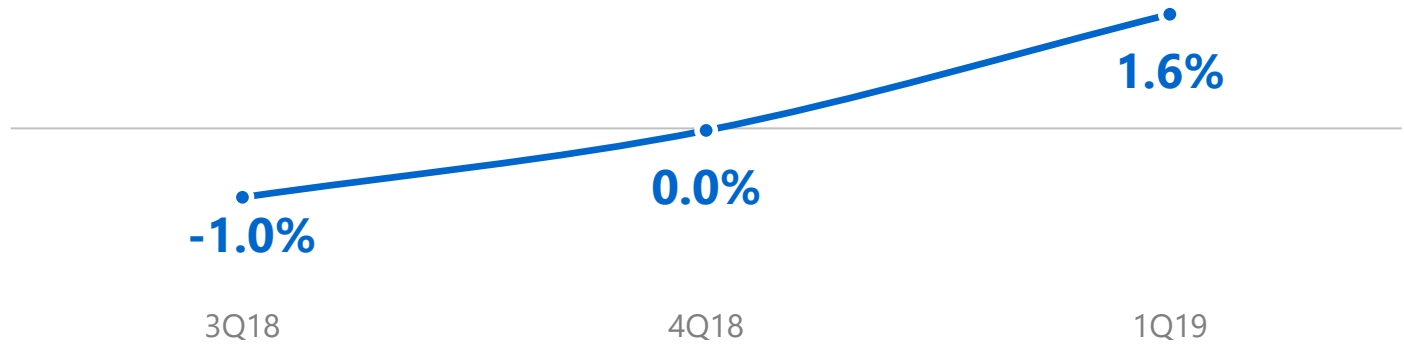
IMPROVED MOBILE REVENUES GROWTH WITH RECOVERING MSR AND CONTINUED EXPANSION OF HANDSET SALES

Mobile Revenues¹ R\$ Million >>>

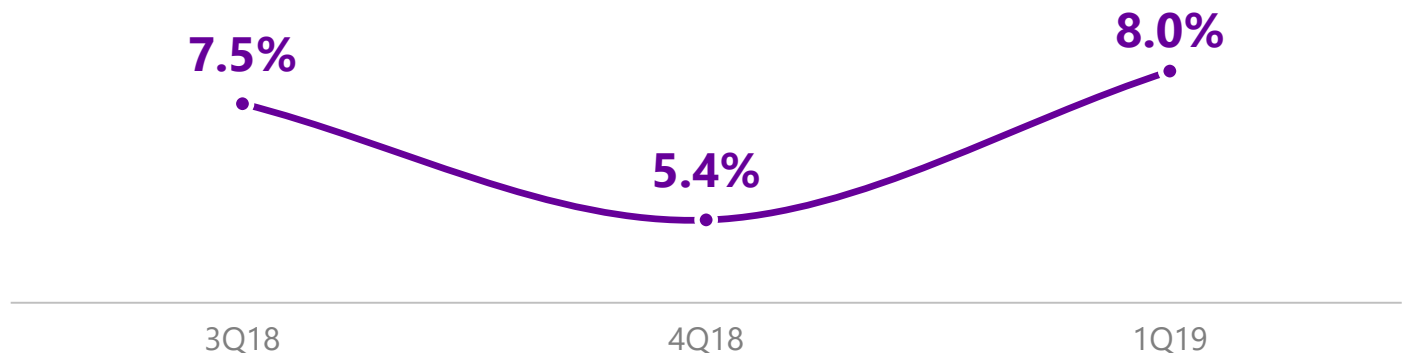


MSR improving over the last quarters with strong postpaid growth >>>

Mobile Service Revenue Growth YoY%

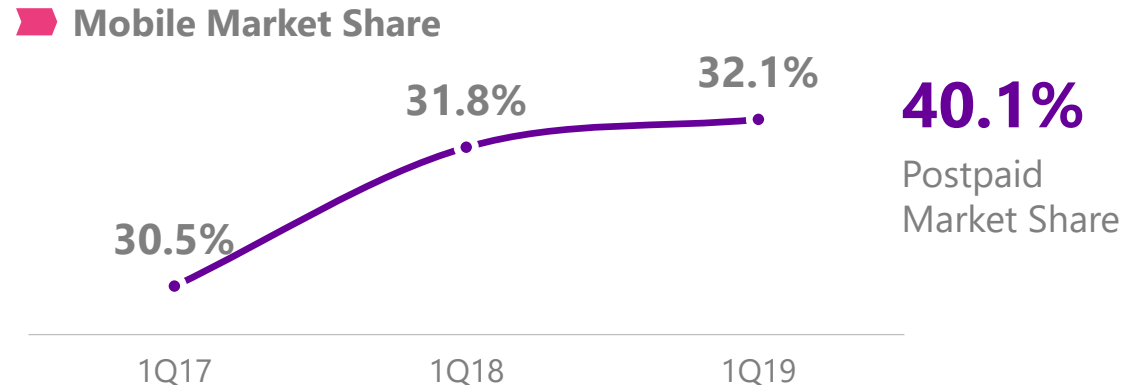


Human Postpaid Revenue Growth YoY%

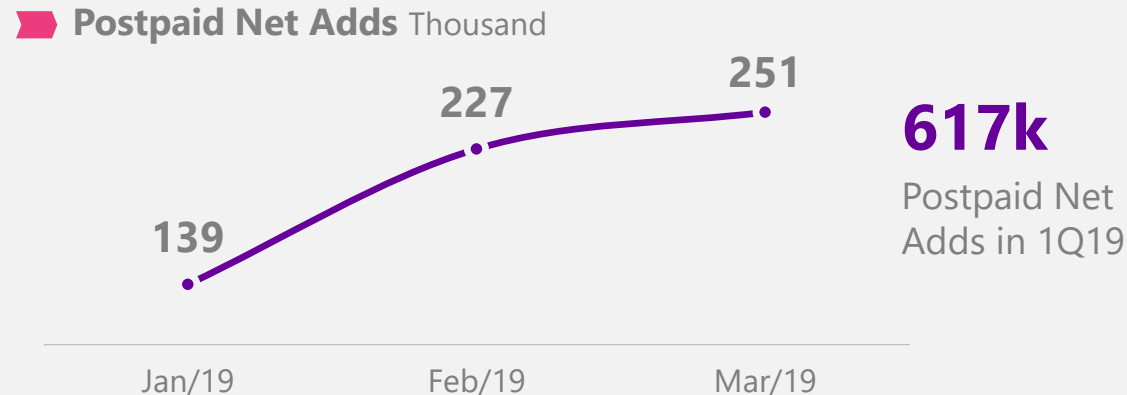


➤ RATIONAL PRICING STRATEGY LEADING TO ARPU INCREASE, WITH LIMITED IMPACT ON CHURN

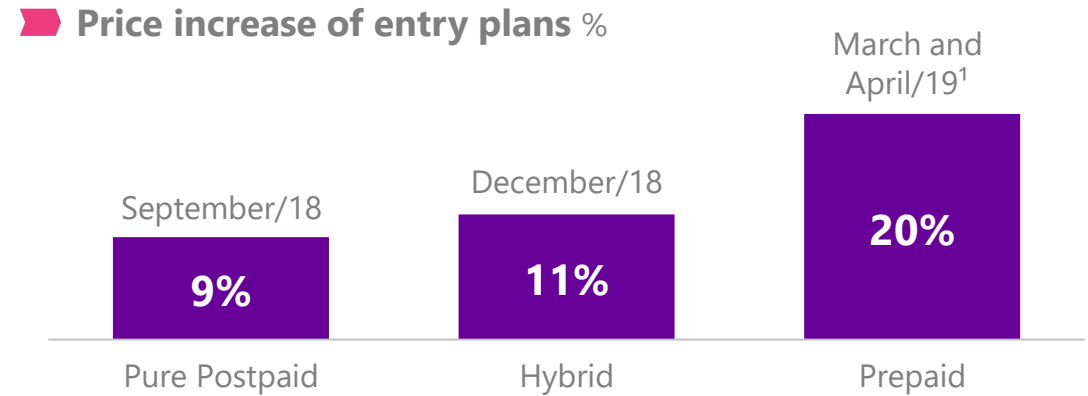
Undisputed mobile leadership with expanding market share >>>



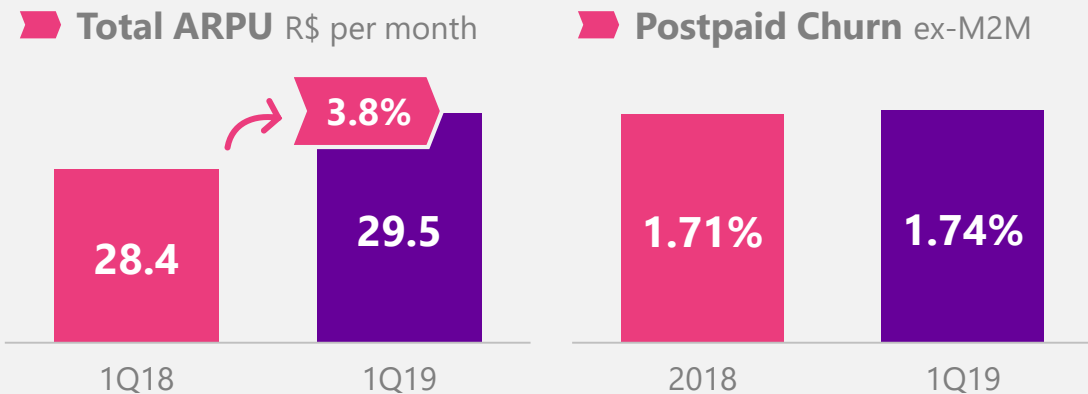
In 1Q19, we had a softer volume of postpaid net adds, with recent improving trends... >>>



...as an isolated effect of the price increase carried out for hybrid customers... >>>

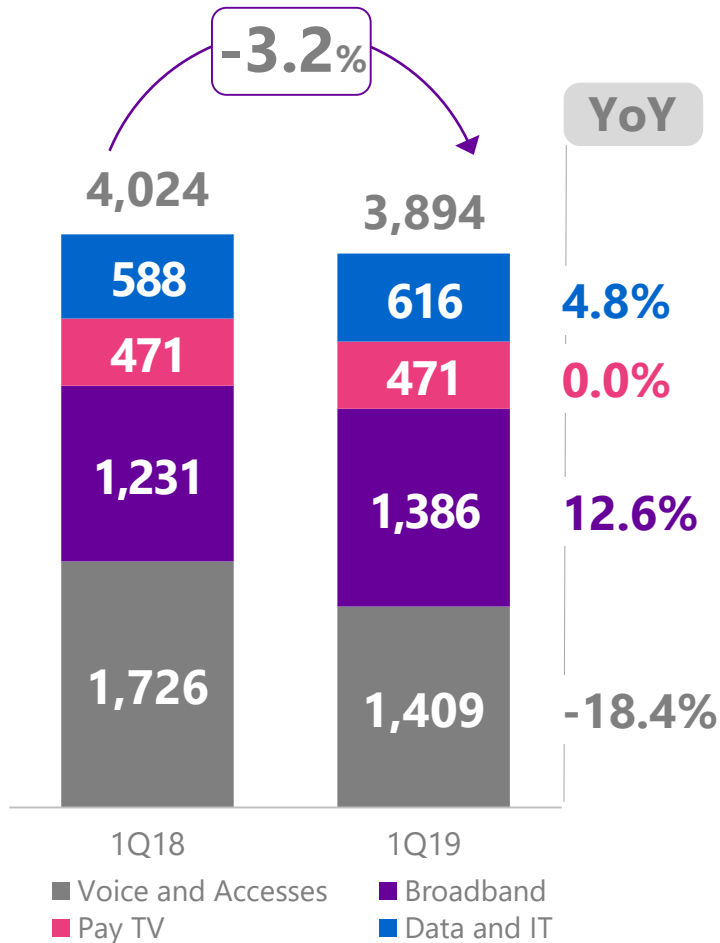


...that contributed to an ARPU expansion with limited impact on churn >>>



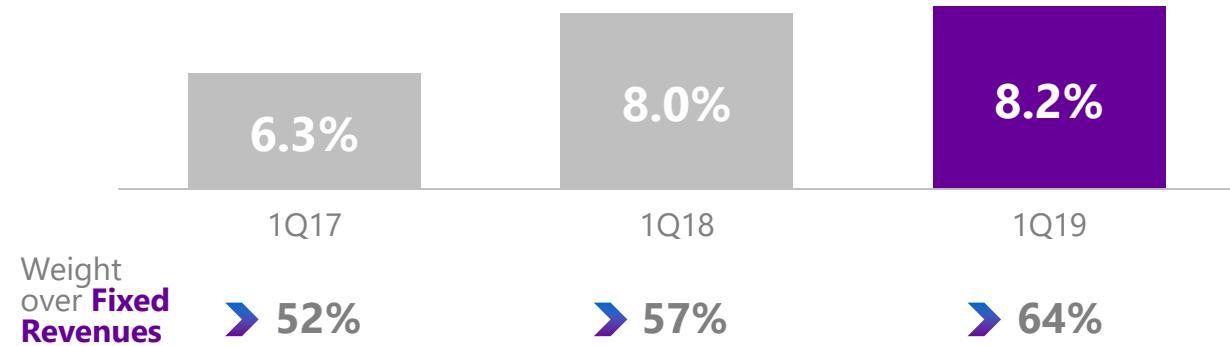
TRANSFORMATION OF FIXED REVENUE MIX UNDERWAY, BENEFITED BY OUTPERFORMING FIBER-RELATED REVENUES

Fixed Revenues¹ R\$ Million >>>



Transforming the fixed revenue mix >>>

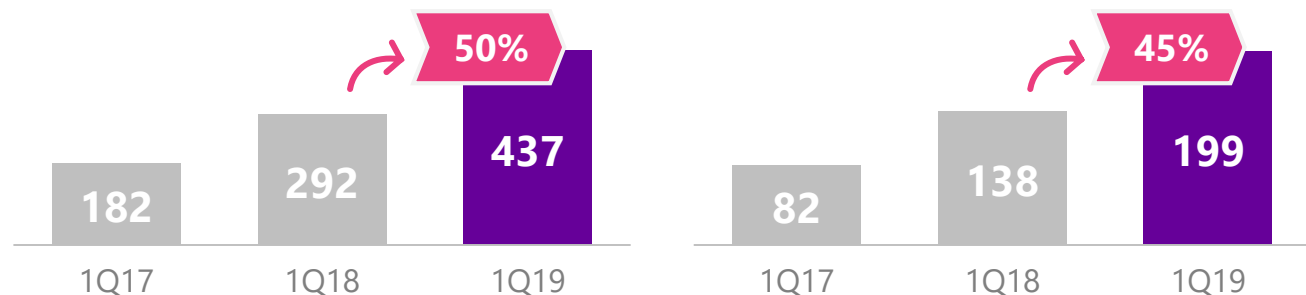
Fixed Revenues ex-Voice YoY%



FTTH + IPTV revenues already representing 16.3% of fixed revenues, with a CAGR 17-19 of 55.2% >>>

FTTH Revenue R\$ million and YoY%

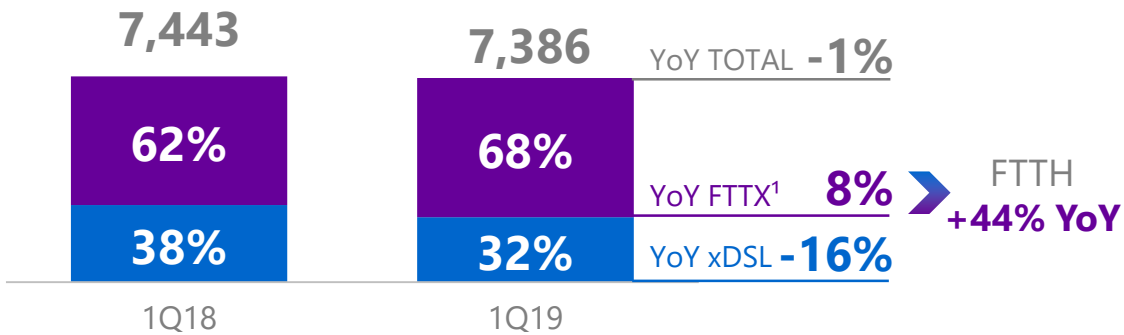
IPTV Revenue R\$ million and YoY%



STRONG GROWTH OF FIBER ACCESSES LEADING TO ANOTHER QUARTER OF SIGNIFICANT ARPU INCREASES

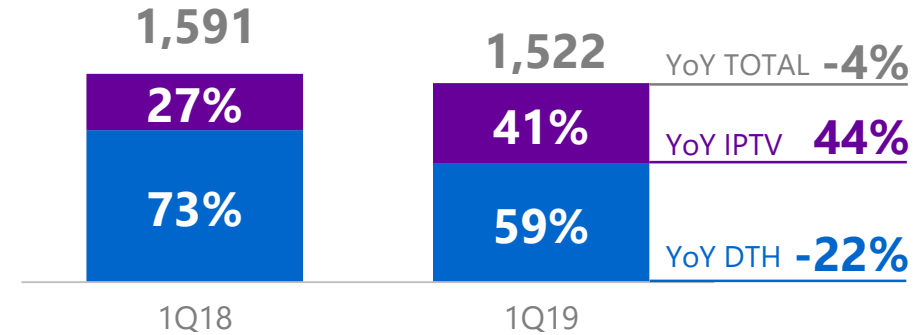
Broadband Accesses and ARPU >>>

BB Accesses Thousand



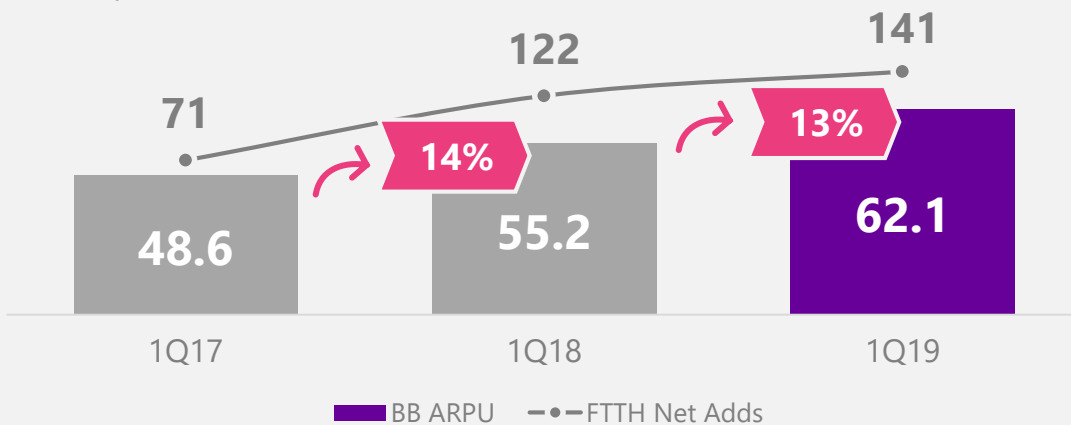
Pay TV Accesses and ARPU >>>

Pay TV Accesses Thousand



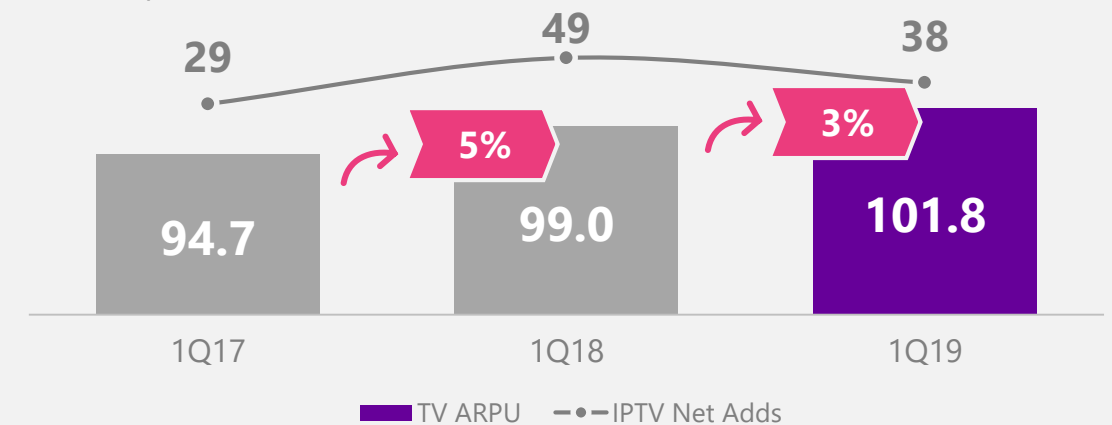
BB ARPU and FTTH Net Adds

R\$ per month and Thousand



Pay TV ARPU and IPTV Net Adds

R\$ per month and Thousand

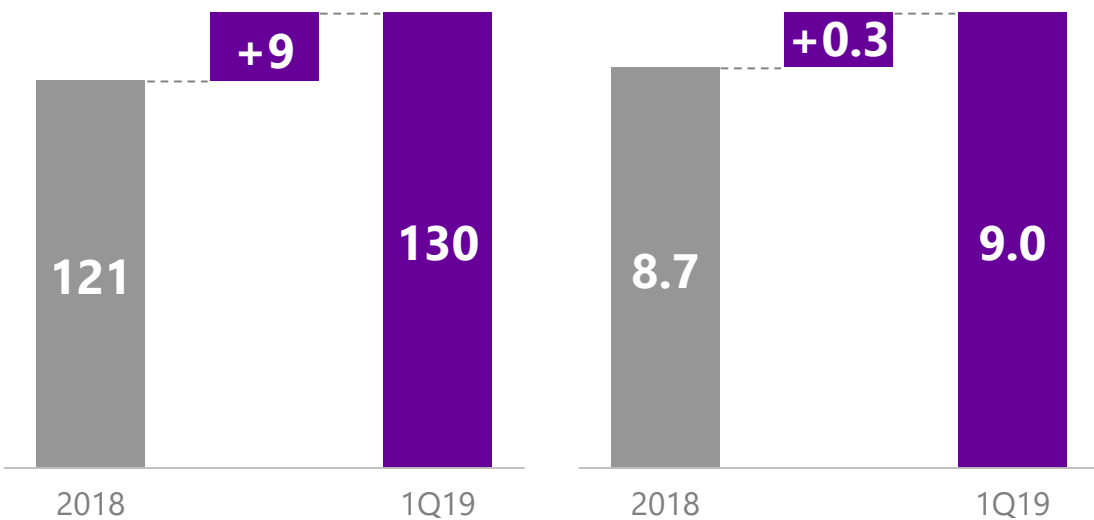


➤ ACCELERATED FIBER EXPANSION, LAUNCHING 9 NEW CITIES IN 1Q19 AND REACHING NEW REGIONS OF BRAZIL

Strong presence throughout Brazil, already delivering >300k HPs and 9 new cities in 1Q19 >>>

FTTH Cities

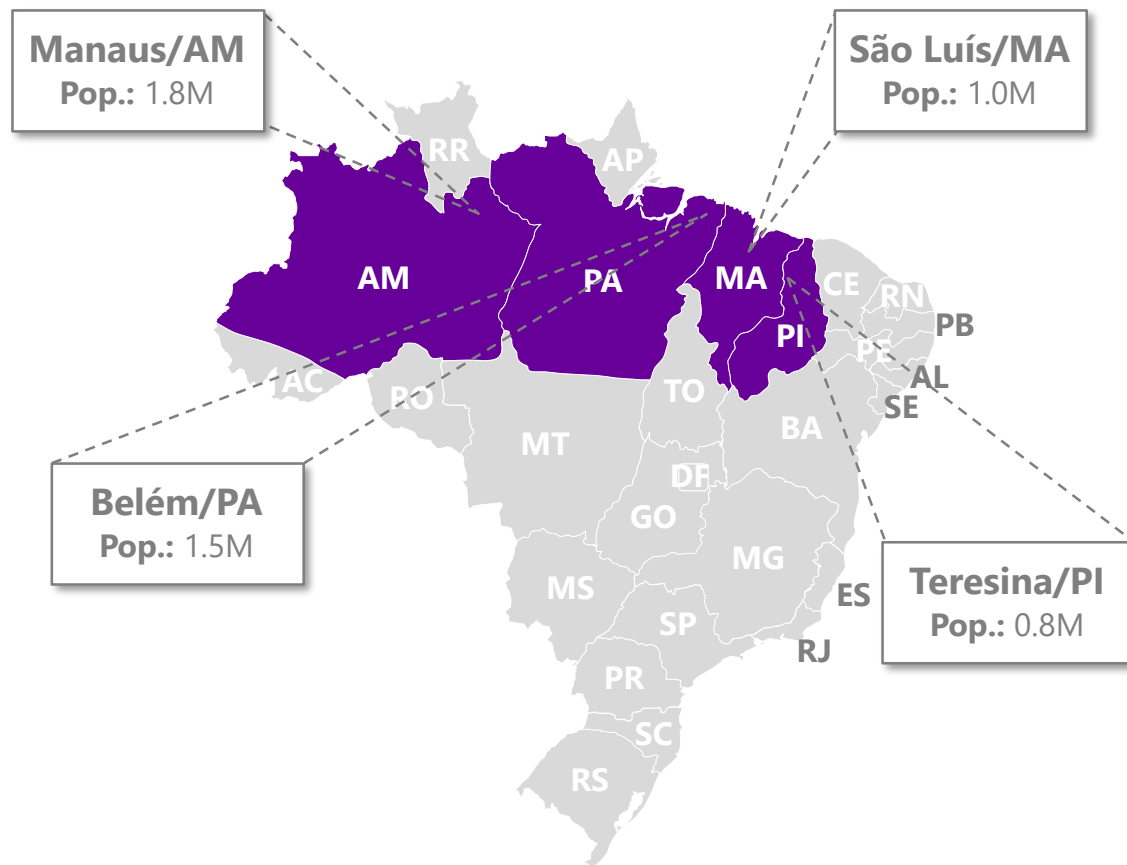
FTTH HPs Million



Cities launched in 1Q19

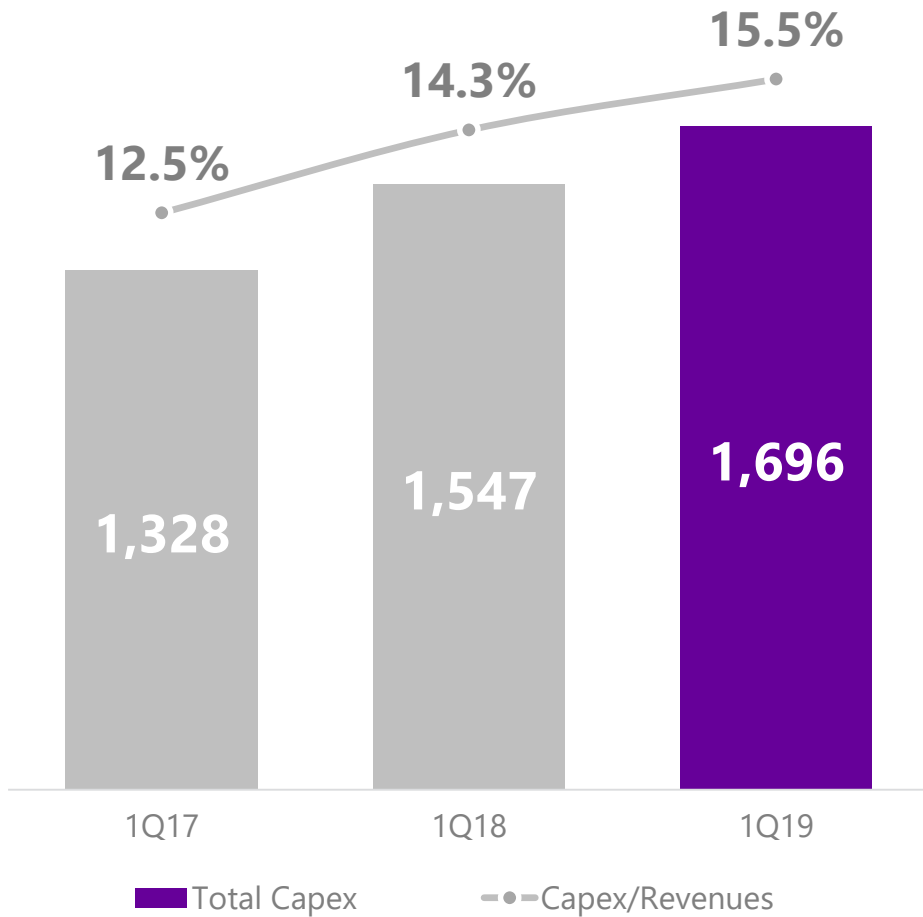
- > Santa Maria/RS
- > Boituva/SP
- > São Bento do Sul/SC
- > Cabedelo/PB
- > São José do Rio Pardo/SP
- > Catanduva/SP
- > Varginha/MG
- > Mafra/SC
- > Vitória/ES

Expanding our presence to northern regions of Brazil, entering untapped high-potential capitals >>>



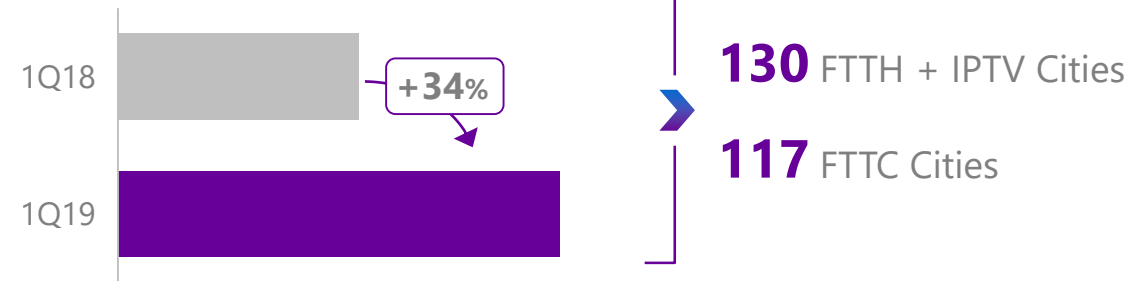
▶ INVESTMENTS OF R\$ 1.7 BILLION IN 1Q19, IN LINE WITH HIGHER CAPEX EXPECTED FOR THE YEAR

Capex ex-Licenses¹ R\$ Million >>>

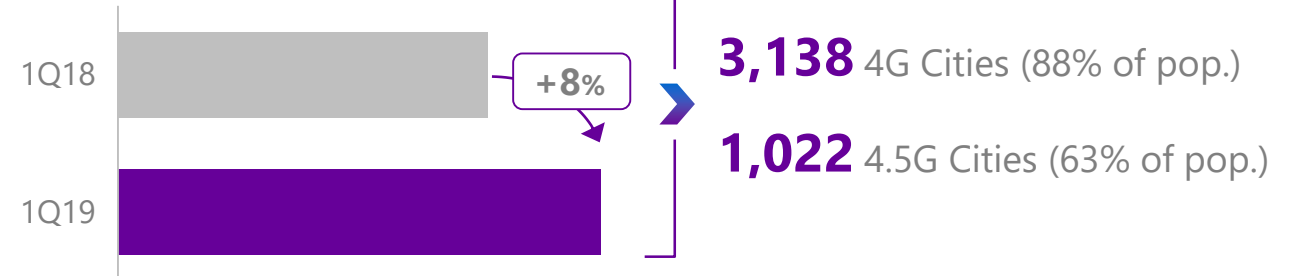


Expanding our premium footprint by accelerating investments in fiber and 4G/4.5G >>>

▶ Fiber Investments

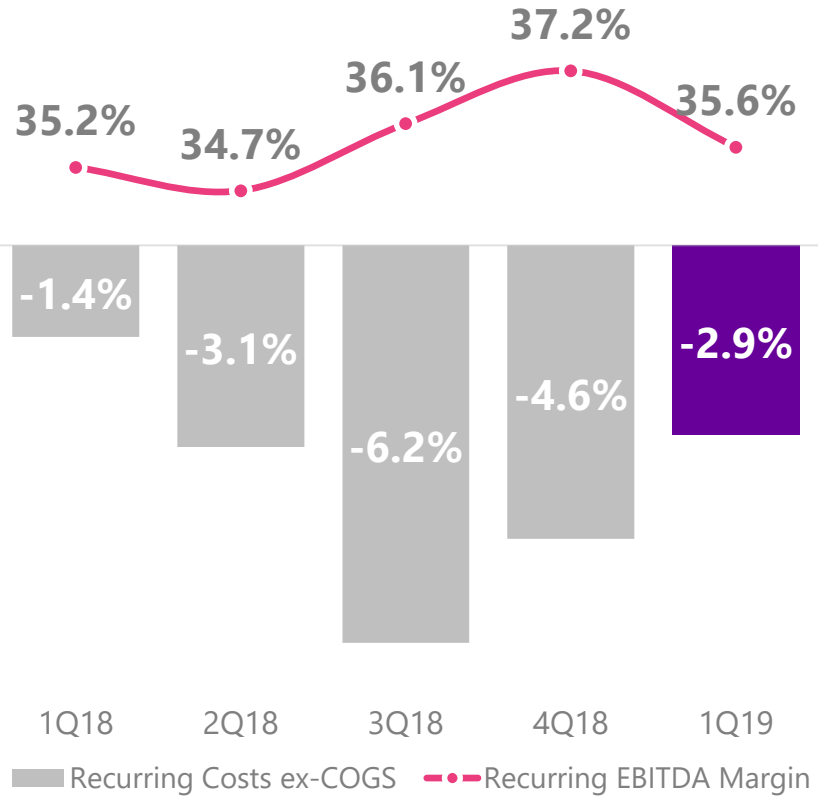


▶ 4G/4.5G Investments

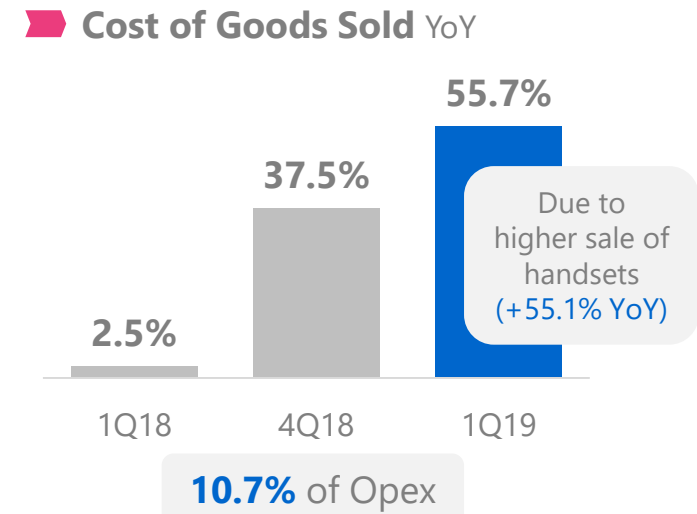
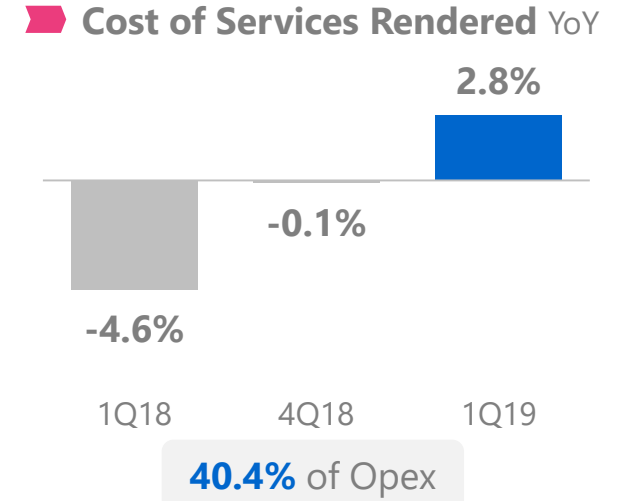
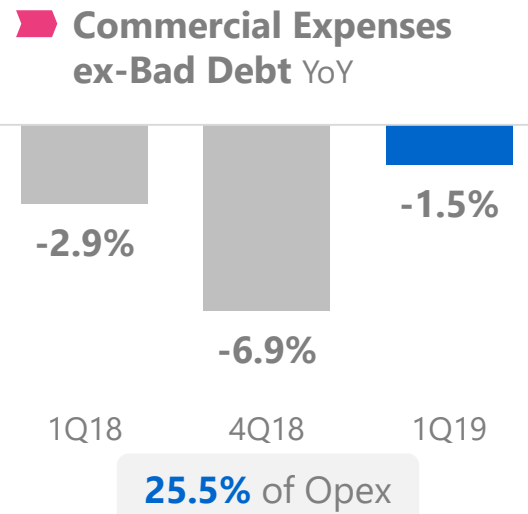
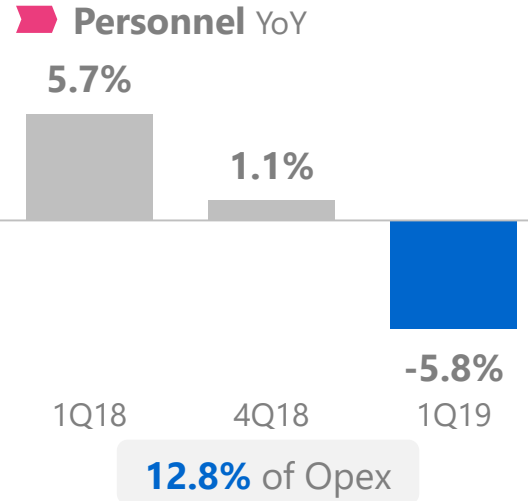


EXPANDING MARGINS YOY DESPITE INCREASING COSTS DUE TO ACCELERATED HANDSET SALES

1Q19 Cost Evolution ex-Cost of Goods Sold¹ >>>

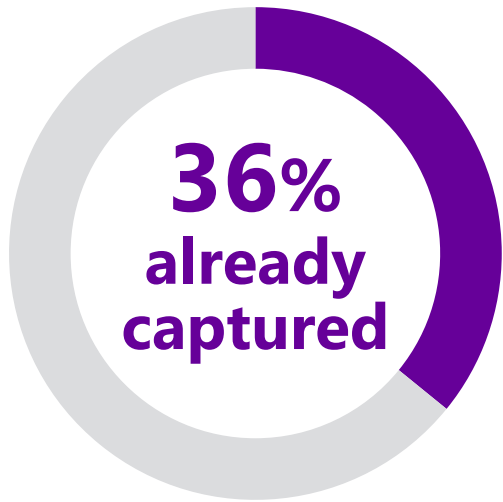


Total Recurring Costs YoY



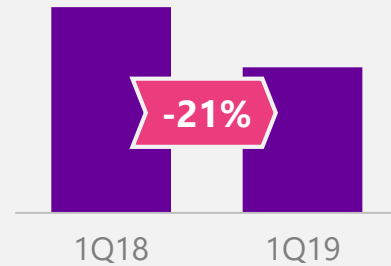
➤ POTENTIAL OF **REDUCING AROUND R\$ 1.6 BILLION IN COSTS BY 2021**
AS DIGITALIZATION SAVINGS ARE BEING CAPTURED

R\$1.6bn
annual Opex
savings by 2021¹
arising from
digitalization



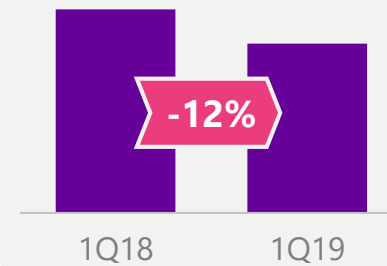
Opex lines within our digitalization perimeter and KPI evolution >>>

➤ **Top-up Commissions Costs**
R\$ YoY



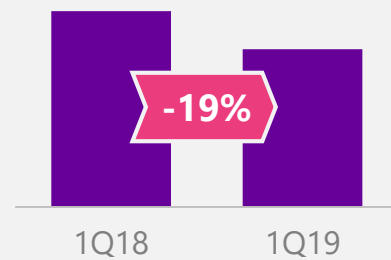
Digital
Top-Ups
24%
over total top-ups

➤ **Call Centers Costs**
R\$ YoY



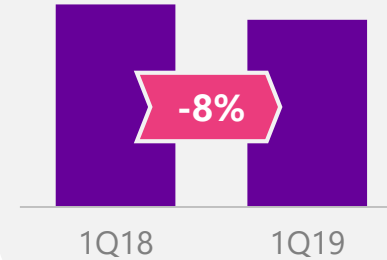
Call Center
Calls
-23%
YoY

➤ **Printing & Posting Costs**
R\$ YoY



e-billing
Penetration
+30%
YoY

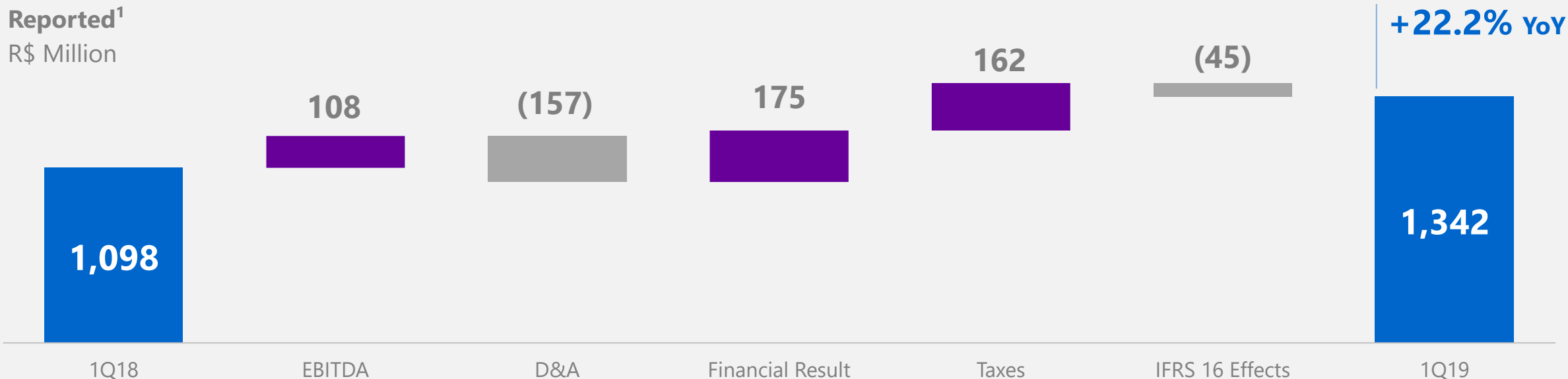
➤ **Technical Support Costs**
R\$ YoY



Digital
Resolution
79%
of cases in 1Q19

▶ **DOUBLE-DIGIT INCREASE OF NET INCOME** DRIVEN BY IMPROVED OPERATING AND FINANCIAL RESULTS

1Q19 Net Income >>>



REMUNERATION BASED ON 2019 NET INCOME



IOC²
Feb/19

R\$ 700 million

IOC
Apr/19

R\$ 570 million

TOTAL R\$1,270 mn

GROSS/PN R\$0.78

NET/PN R\$0.66

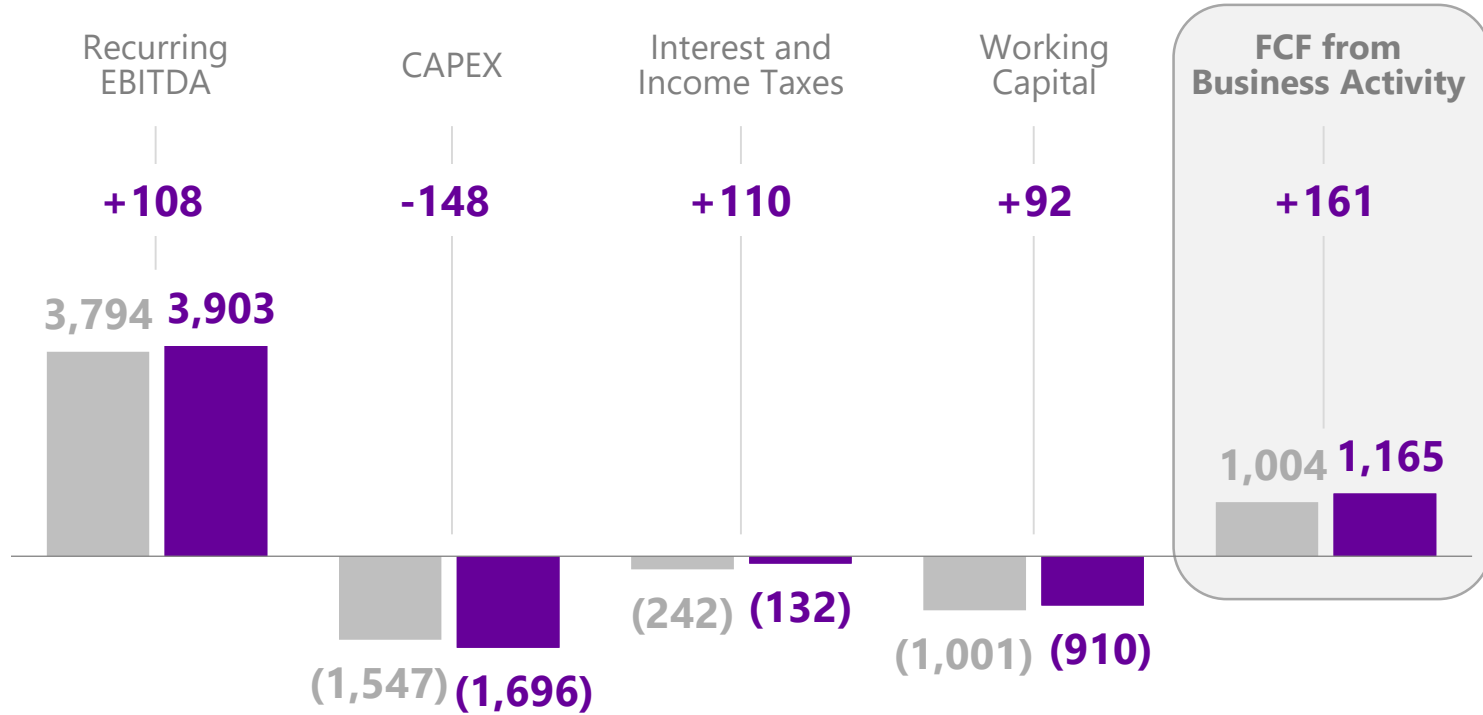
PAYMENT OF REMUNERATION BASED ON 2018 NET INCOME

Aug 20, 2019: R\$3.2 bn

Dec 17, 2019: R\$3.8 bn

➤ FREE CASH FLOW GROWING 16% YOY IN 1Q19, COMPENSATING HIGHER INVESTMENTS WITH FURTHER FINANCIAL EFFICIENCIES

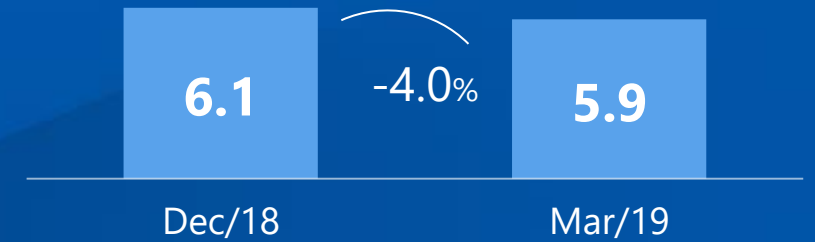
Free Cash Flow¹ R\$ million >>> ■ 1Q18 ■ 1Q19



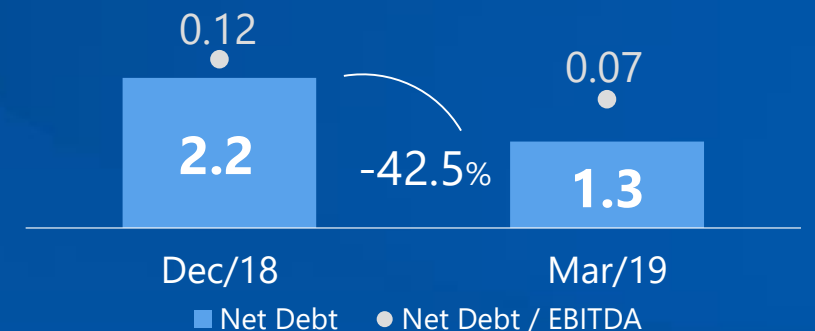
Strong balance sheet contributes to low leverage



Gross Debt² R\$ billion



Net Debt² R\$ billion



Considering IFRS 16 effects, Net Debt reaches **R\$9.6 bn**

Improving ROCE through smart allocation by deprioritizing legacy technologies while selecting **higher-return projects**

➤ EFFECTS OF IFRS 16 ON OUR 1Q19 RESULTS



➤➤➤➤

R\$ Million	Pro forma			Reported	
	1Q19 w/o IFRS 16	Δ% YoY	IFRS Adjustments	1Q19 w/ IFRS 16	Δ% YoY
Net Operating Revenue	10,974.7	1.7%	0.0	10,974.7	1.7%
Recurring Operating Costs	(7,071.8)	1.1%	457.5	(6,614.3)	-5.4%
Cost of Services Rendered	(2,853.8)	2.8%	404.3	(2,449.5)	-11.8%
Commercial Expenses	(2,228.9)	0.1%	13.0	(2,215.9)	-0.5%
G&A Expenses	(346.3)	-7.4%	40.2	(306.1)	-18.2%
Recurring EBITDA	3,902.9	2.9%	457.5	4,360.4	14.9%
Recurring EBITDA Margin	35.6%	0.4 p.p.	4.2 p.p.	39.7%	4.6 p.p.
Depreciation & Amortization	(2,155.2)	7.9%	(433.2)	(2,588.4)	29.5%
EBIT	1,747.7	-2.7%	24.3	1,772.0	-1.3%
Financial Result	2.7	-101.6%	(92.3)	(89.6)	-48.1%
Taxes	(363.3)	-30.9%	23.1	(340.2)	-35.3%
Net Income	1,387.0	26.3%	(44.9)	1,342.1	22.2%

IFRS 16

New accounting standard in force since January 2019, under which **lessees are required to account for leases in the balance sheet under a single accounting model with limited exceptions.** Lessees should recognize a lease liability for the NPV of future lease payments and a right-of-use asset for the right to use the underlying asset throughout the lease term.

As a result, the P&L is impacted as the **lease costs are replaced by depreciation of right-of-use assets and interest on lease liabilities**, while the Cash Flow Statement is also impacted with a **shift from cash flows from operating activities to cash flows from financing activities.**

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For further information:

Investor Relations



+55 11 3430.3687

ir.br@telefonica.com | www.telefonica.com.br/ir

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BALCÃO





Main topics

KPIs and initiatives

Our management was developed to **reduce risks and maximize the benefits** for our stakeholders.

In this sense, the **Responsible Business Plan** is our performance model to ensure economic, environmental, social and governance initiatives in **seven main topics**.

Risk Management

- › Ethics and human rights

- › Obtaining the Ethisphere certification

Sustainable Production

- › Talent and diversity
- › Environment
- › Sustainable supply chain management

- › 20% of the variable remuneration linked to the sustainability objectives (quality, diversity and CO2)
- › 1.5 tons of waste collected in the Recycle Program
- › 100% renewable energy

Sustainability as a Growth Lever

- › Telco as a driver of development
- › Sustainable innovation
- › Focus on the customer and digital trust

- › Increase of 45% participation in the Sustainable Innovation Initiative (IIS)
- › 9,877 accesses to our the Privacy Center
- › According to Merco's ranking, we are Telco with a better reputation

IIRC Capitals

Slides

Financial	3 - 14
Manufactured	8 - 9
Intellectual	11
Human	16
Social	16
Natural	16

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RANKING EMERGING 70

ALAS20
Agenda Líderes
Sustentables 2020

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