

Results

2Q19



Telefônica Brasil S.A.
Investor Relations

July, 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



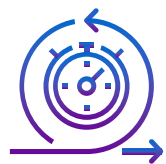
Our actual results may differ materially from those contained in such forward-looking statements, due to a variety of factors, including Brazilian political and economic factors, the development of competitive technologies, access to the capital required to achieve those results, and the emergence of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



» 2Q19 HIGHLIGHTS



Key Segments

+37.9%

FTTH Customers YoY

FTTH Revenues
(+55.1% YoY)



+8.5%

Postpaid Customers YoY

Human Postpaid Revenues (+3.5% YoY)



Revenues

+0.4%

YoY

Total Revenues



+2.3%

YoY

Mobile Revenue¹
(+0.1% YoY MSR)



Profitability

-2.4%

YoY

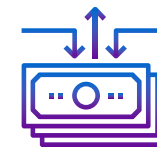
Recurring Costs ex-COGS
(+0.1% YoY Total Costs)



34.9%

EBITDA Margin

EBITDA
(+1.0% YoY)



Cash

+12.7%

YoY

1H19 Free Cash Flow
(R\$ 3.4 bn)



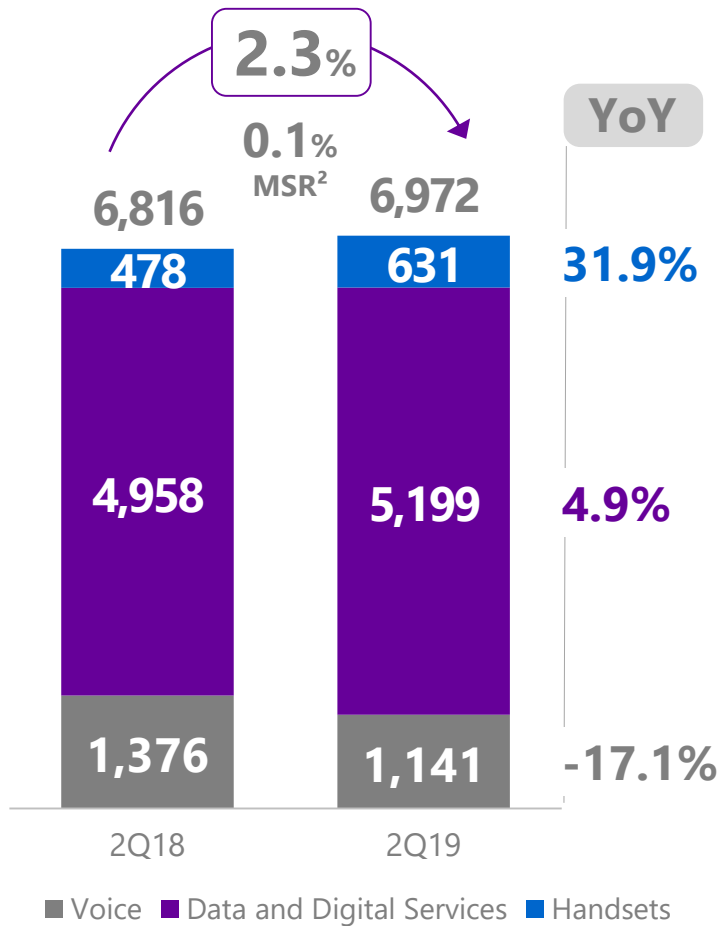
+24.3%

YoY

1H19 Recurring Net Income (R\$ 2.8 bn)

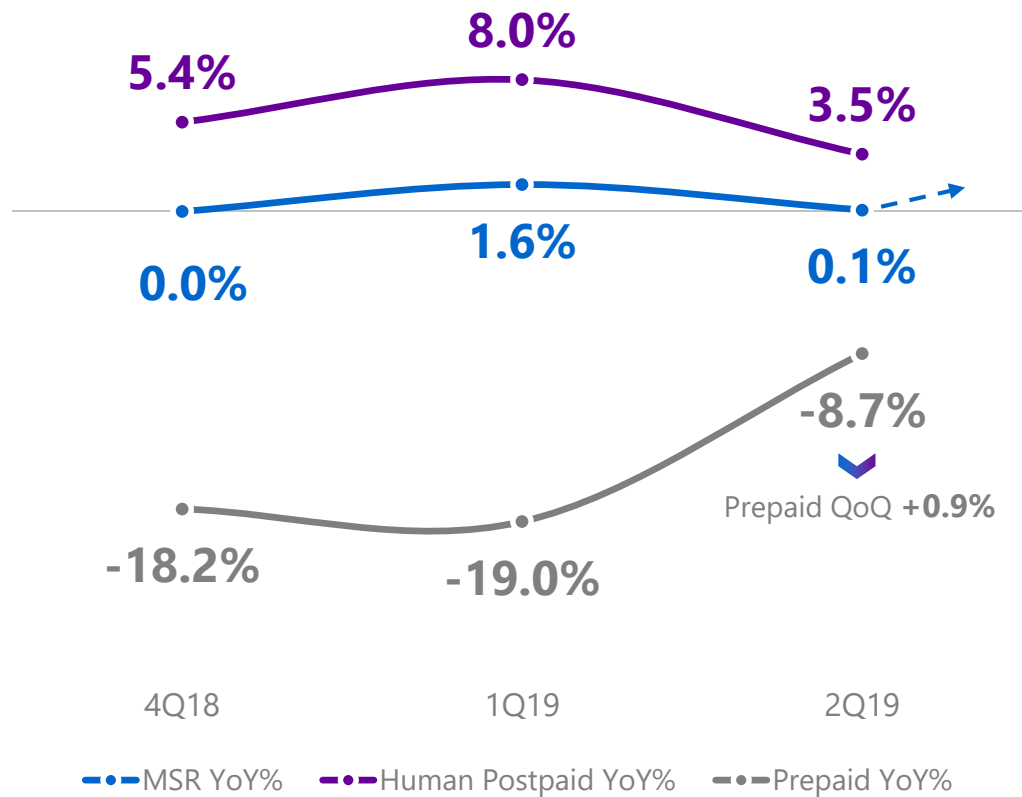
MOBILE REVENUES GROWTH BENEFITED BY STRONG HANDSET SALES AND IMPROVING PREPAID TRENDS, WITH POSITIVE PERSPECTIVES FOR 2H19

Mobile Revenues¹ R\$ Million >>>



Sequential improvement in prepaid offset by punctual deceleration in postpaid, with good trends going forward >>>

Mobile Service Revenue Growth YoY%



Human postpaid revenues growing 5.7% YoY in 1H19 mainly due to hybrid price increase in 1Q19

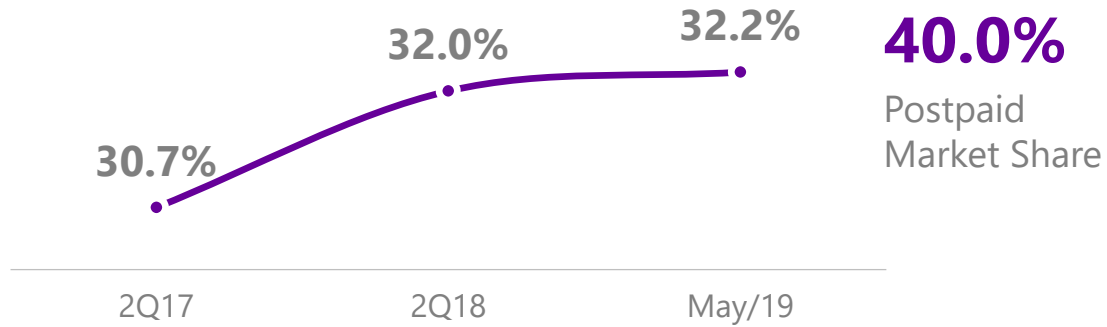
Rational pricing strategy maintained for 2H19 with **postpaid price increase positively impacting 3Q19**

Improvement in prepaid due to better monetization of customer base

UNMATCHED QUALITY OF NETWORK AND SERVICE TRANSLATES INTO MARKET AND ARPU LEADERSHIP

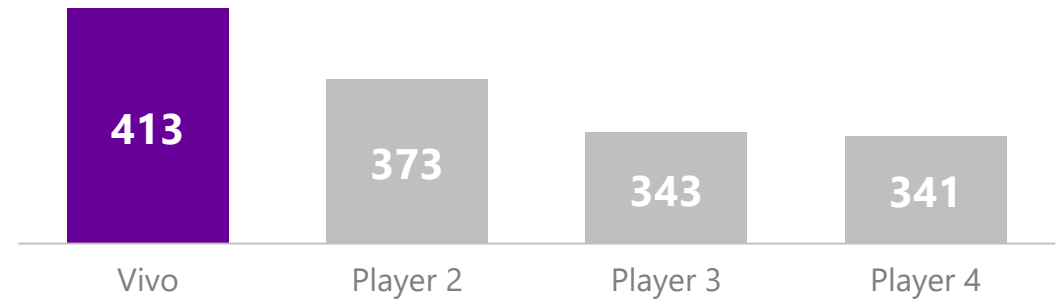
Market share remains on the rise, solidifying our undisputed leadership >>>

Mobile Market Share



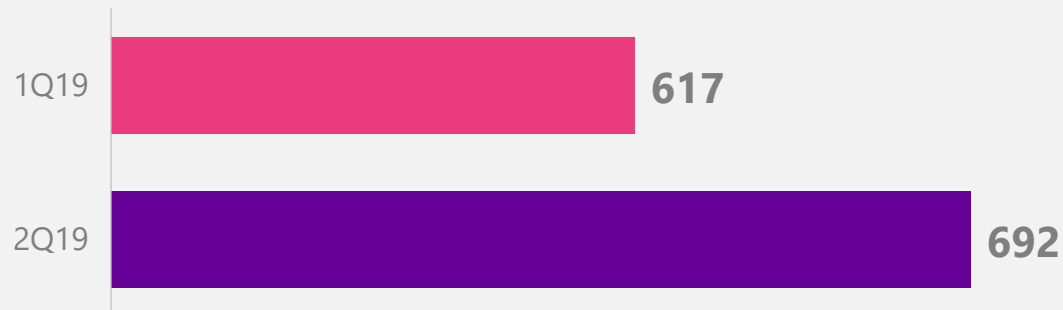
...as Vivo remains the best rated network Brazil in terms of overall capacity, coverage and service quality >>>

P3 connect 2019 Mobile Review Brazil Results¹



Postpaid net adds improving sequentially... >>>

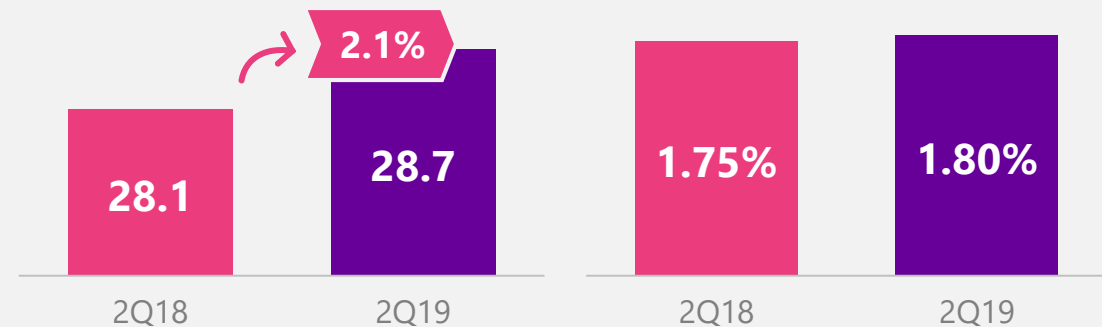
Postpaid Net Adds Thousand



ARPU continues to grow and churn remains stable despite the competitive environment >>>

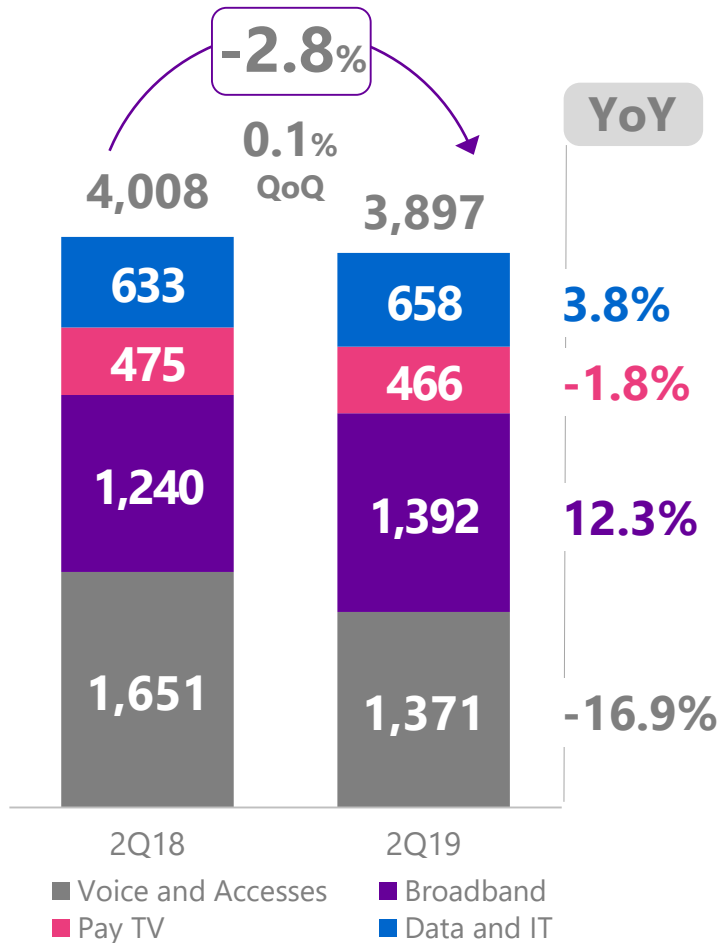
Total ARPU R\$ per month

Postpaid Churn ex-M2M



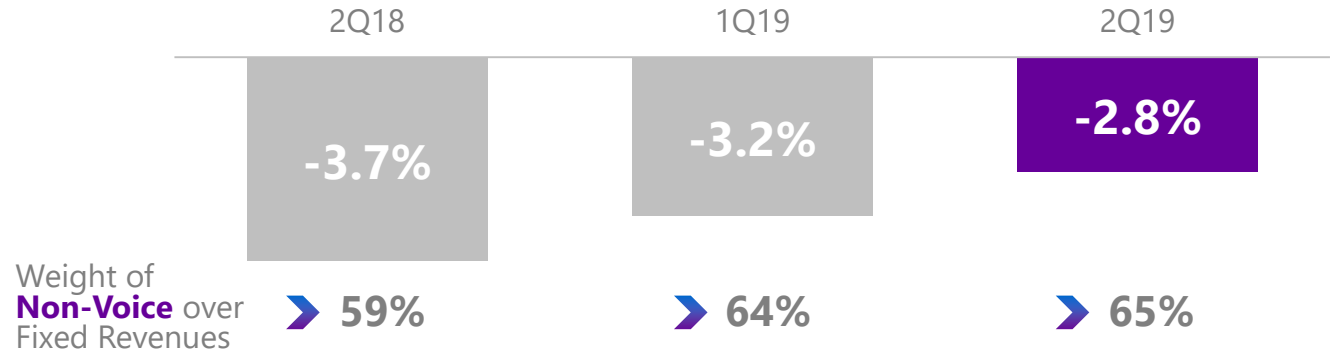
➤ FIXED REVENUE GROWING QUARTER OVER QUARTER WITH BROADBAND ALREADY WEIGHING MORE THAN VOICE

Fixed Revenues¹ R\$ Million >>>



Transformation of fixed revenue mix leading to sequential improvement >>>

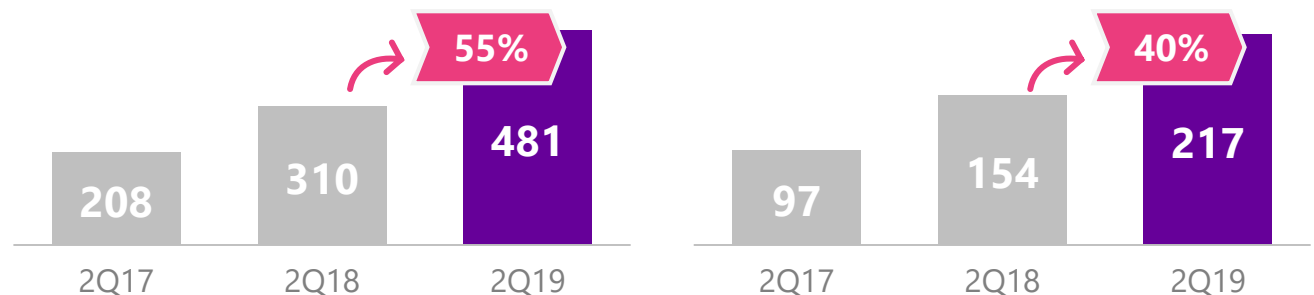
➤ Fixed Revenues YoY%



FTTH + IPTV revenues already representing 17.9% of fixed revenues, with a CAGR 17-19 of 51.2% >>>

➤ FTTH Revenue R\$ million and YoY%

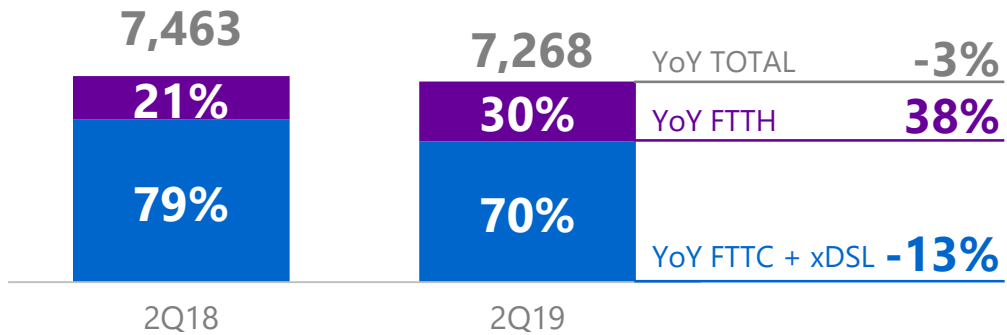
➤ IPTV Revenue R\$ million and YoY%



IMPROVEMENT OF CUSTOMER BASE PROFILE WITH FIBER UPTAKE LEADING TO CONTINUED ARPU GROWTH

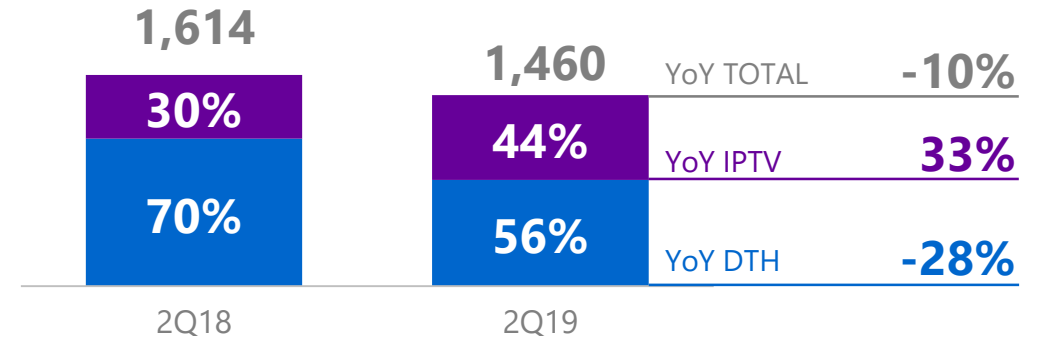
Broadband Accesses and ARPU >>>

BB Accesses Thousand

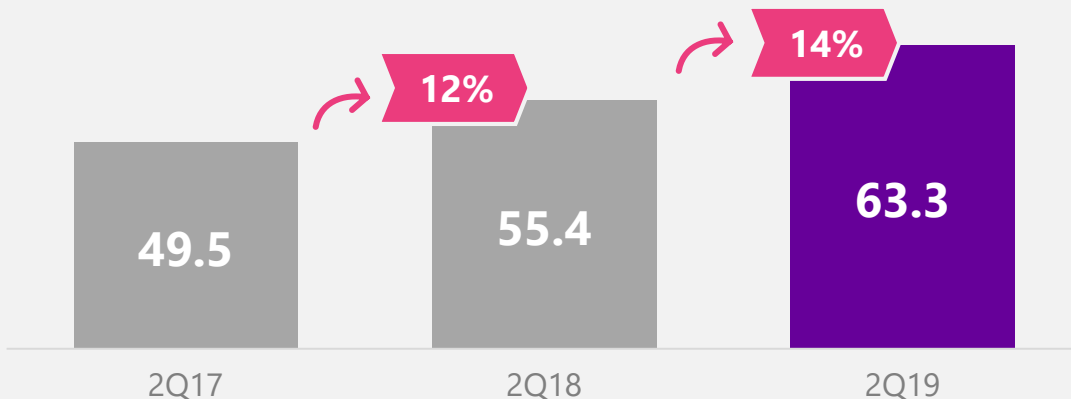


Pay TV Accesses and ARPU >>>

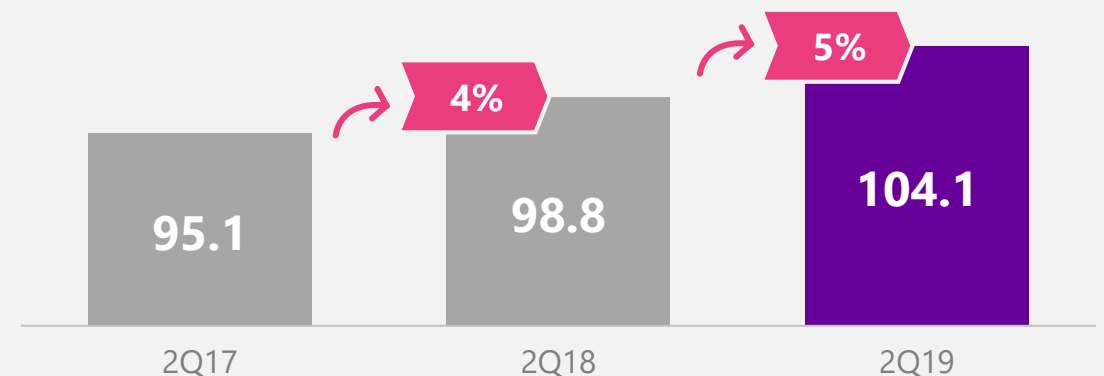
Pay TV Accesses Thousand



BB ARPU R\$ per month

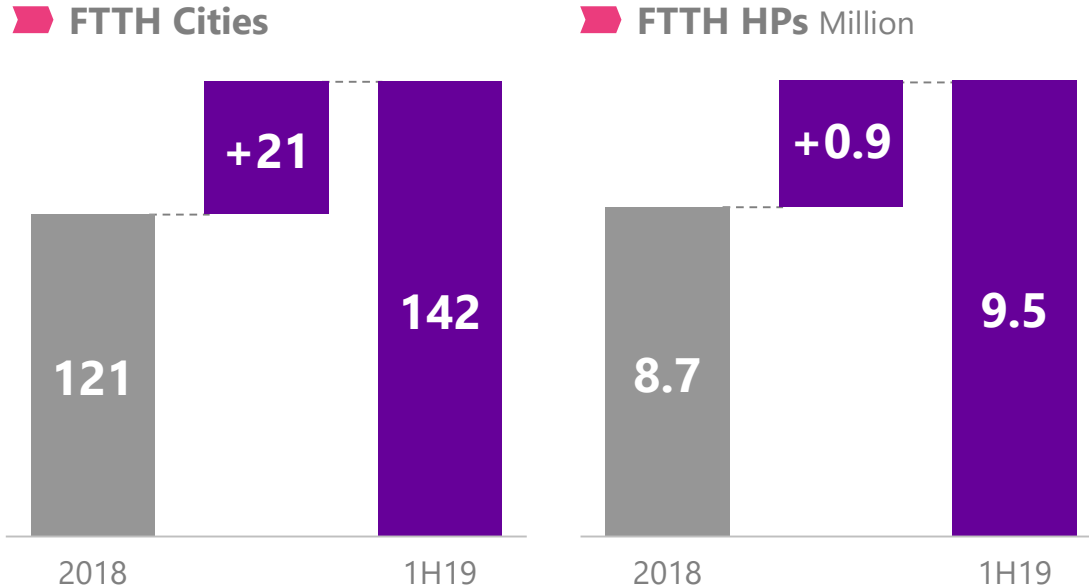


Pay TV ARPU R\$ per month



FAST EXPANSION OF OUR FTTH PRESENCE BOTH IN NEW AND EXISTING CITIES, IMPROVING OUR OVERALL POSITIONING

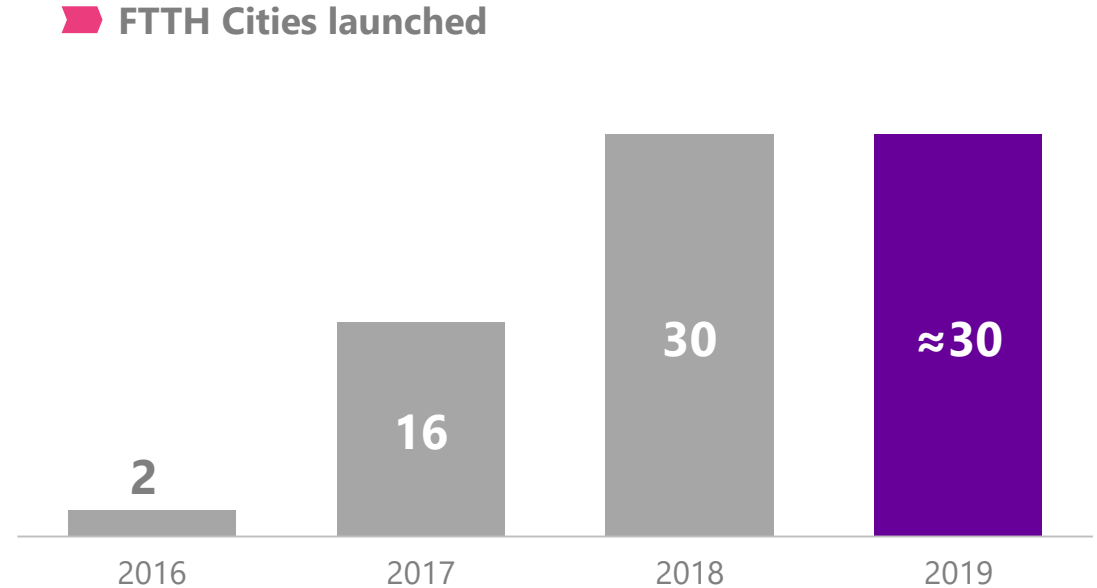
Accelerating our FTTH expansion by delivering 12 new cities in 2Q19 and reaching 9.5 million HPs >>>



Selectively overlaying FTTH in the most valuable FTTC footprint (e.g. Curitiba)

Increased vertical structures deployment in higher density areas with existing FTTH network to improve penetration (e.g. São Paulo)

Large number of cities to be launched in 2019, in line with our expansion plan >>>

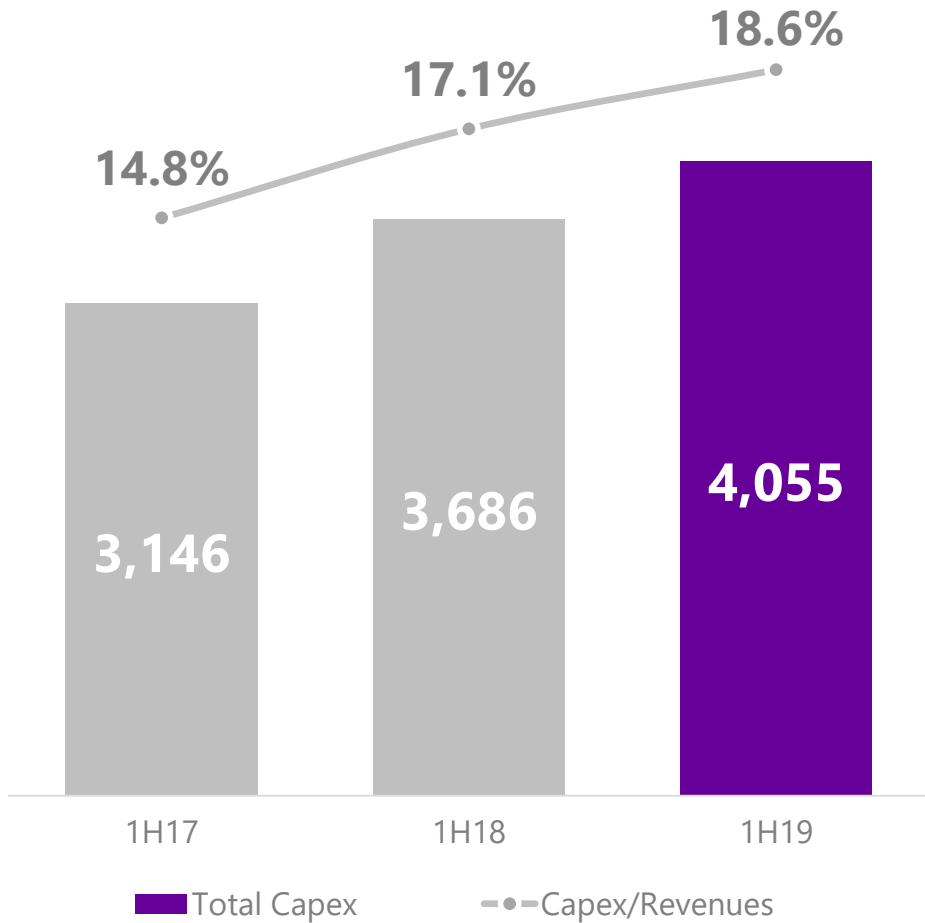


Cities launched in 2Q19

- > Apucarana/PR
- > Betim/MG
- > Caçapava/SP
- > Campo Mourão/PR
- > Fernandópolis/SP
- > Joinville/SC
- > Lins/SP
- > Maceió/AL
- > Mogi-Guaçu/SP
- > Pindamonhangaba/SP
- > Toledo/PR
- > Uberaba/MG

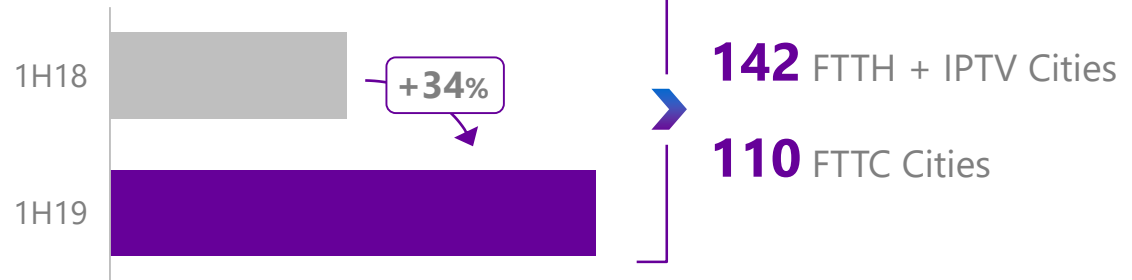
➤ INVESTMENT OF R\$ 2.4 BILLION IN 2Q19, ALIGNED WITH GUIDANCE PROVIDED FOR 2019

Capex ex-Licenses¹ R\$ Million >>>

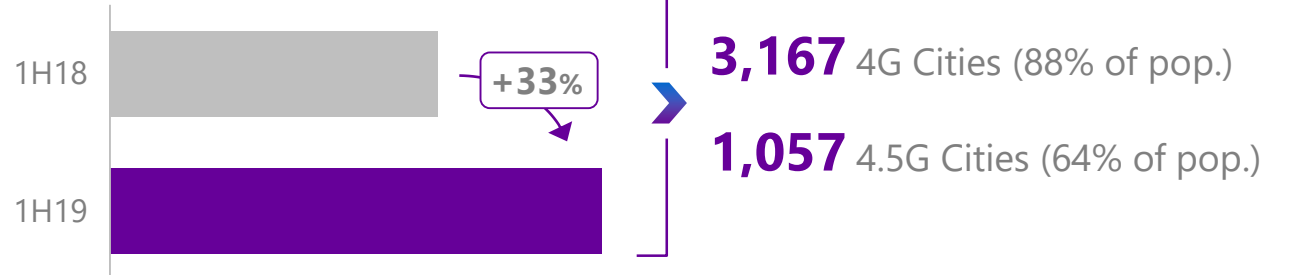


Focus on quality improvement and footprint expansion of fiber and 4G/4.5G networks >>>

➤ Fiber Investment



➤ 4G/4.5G Investment



➤ **MOU¹ SIGNED WITH TIM FOR THE SHARING OF 2G AND 4G MOBILE INFRASTRUCTURE** TO RESULT IN ENHANCED QUALITY AND EFFICIENCY

Improving ROCE with smart Capex allocation by deprioritizing legacy technologies and focusing on higher-return projects

2G network sharing in a Single Grid model

- › 2G frequencies released to be refarmed and used by other technologies
- › Modernization of network with the partial switch-off of an outdated technology, allowing for better monetization

New sharing agreement concerning 4G network infrastructure

- › Sharing 4G in 700MHz for cities with <30k population
- › Expansion of nationwide 4G coverage with less Capex intensity
- › Improvement of network capacity and data quality

Opportunities of network sharing in other frequencies and technologies

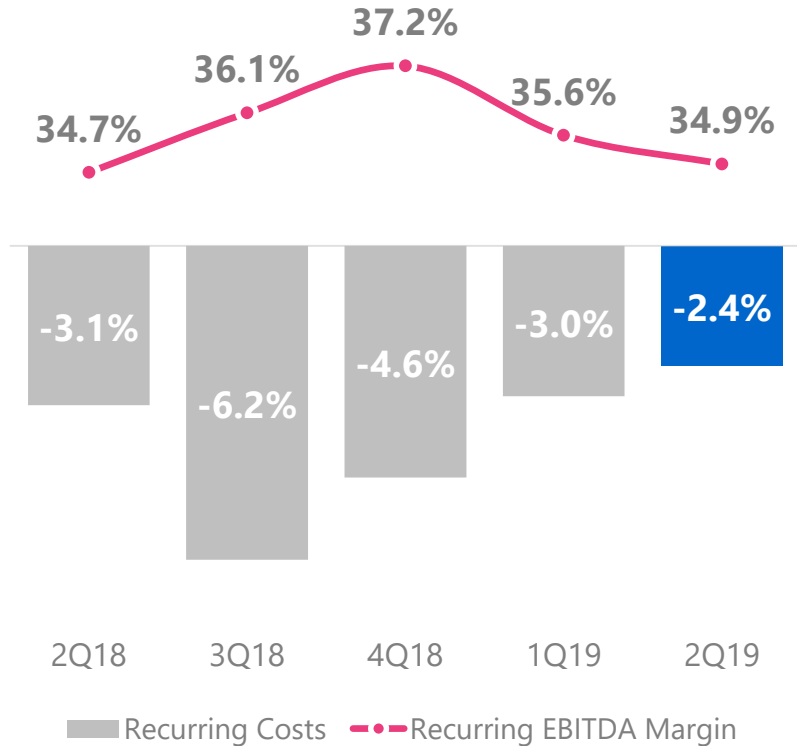
- › Possibility that could be considered by the operators going forward
- › Would bring further efficiencies and network quality improvement

Efficiency and cost reduction opportunities regarding network operations and maintenance

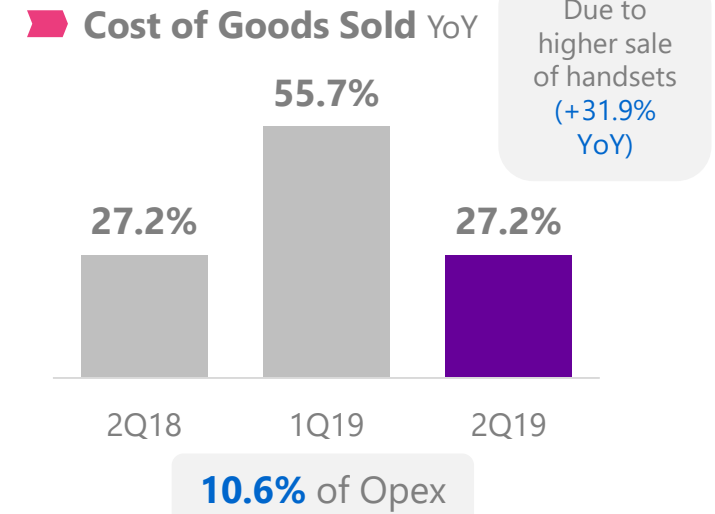
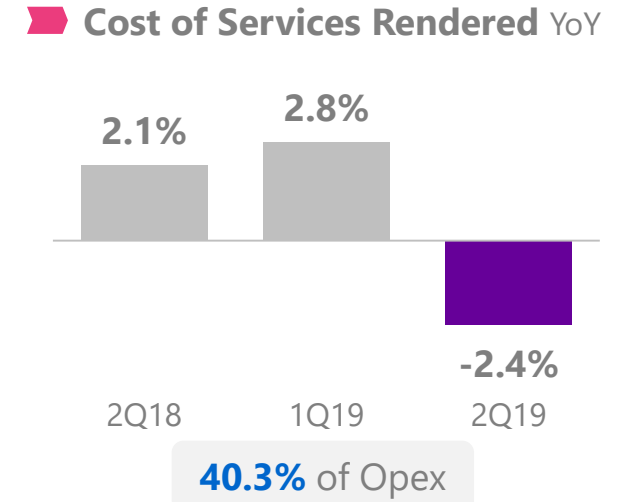
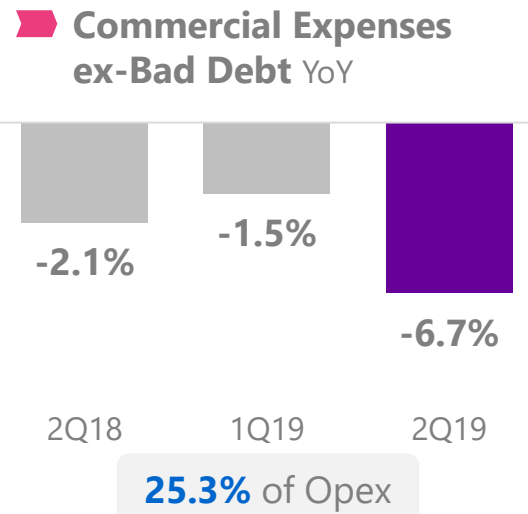
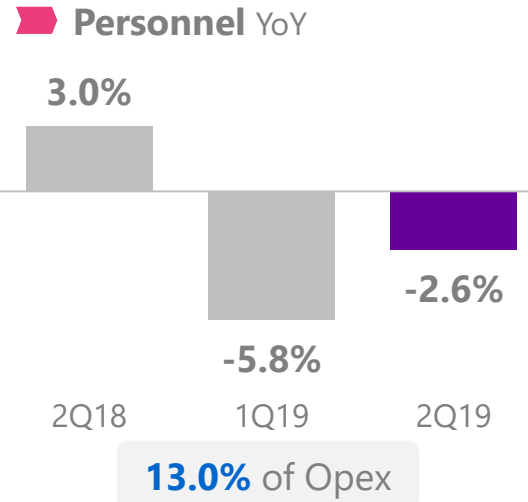
- › Sharing allows for the avoidance of Capex, that would be redirected for the expansion of 4.5G and FTTH networks
- › Opex efficiencies mainly related to costs with O&M, energy and leasing

MARGIN EXPANSION DRIVEN BY CONTROLLED COST EVOLUTION RESULTING FROM DIGITALIZATION AND EFFICIENCIES

2Q19 Cost Evolution ex-Cost of Goods Sold¹ >>>



Total Recurring Costs YoY



➤ LEVERAGING ON ARTIFICIAL INTELLIGENCE AND E-CARE APPS TO UNLOCK COST SAVINGS WHILE FURTHER IMPROVING CUSTOMER EXPERIENCE



- › **Virtual assistant AURA is already used in more than 20 channels**, such as Meu Vivo app, call centers and website, with **>50 million interactions** up to date
- › Used to address a number of issues related to **billing, data consumption, prepaid balance**, etc.
- › Our **Cognitive Call Center** capabilities are addressing $\approx 30\%$ of prepaid and hybrid customer demands, avoiding human interactions
- › **Savings are exceeding internal expectations** and customer satisfaction is above 90%

+192%
Unique AURA Users
(May/19 vs. Jan/19)

+220%
Calls Held on Call Centers
(May/19 vs. Jan/19)



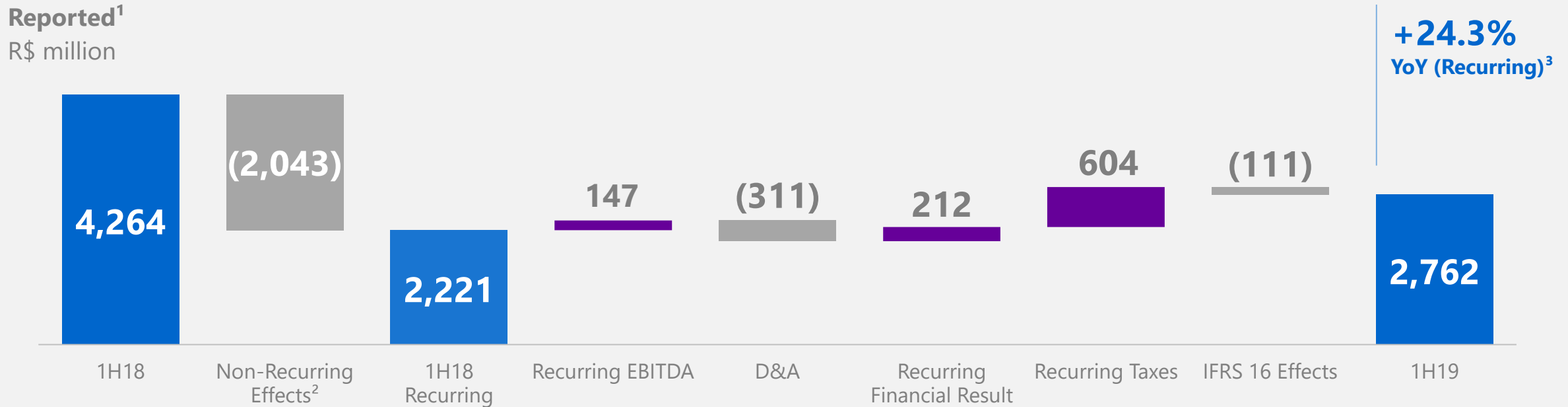
- › Recent revamp of **Meu Vivo Móvel and Fixo (B2C)** and launch of **Meu Vivo Empresas (B2B)**
- › Apps have **functionalities which cover $\approx 70\%$ of demands**
- › **>12 million** unique users on B2C Mobile and **>2 million** on B2C Fixed, with high review score on app stores

+62%
Top-Ups on App
(May/19 vs. Sep/18)

RECURRING NET INCOME INCREASING DOUBLE-DIGIT IN 1H19

BOOSTED BY IMPROVED OPERATING AND FINANCIAL RESULTS

1H19 Net Income >>>



REMUNERATION BASED ON 2019 NET INCOME



TOTAL R\$2,238 mn

GROSS/PN R\$1.37

NET/PN R\$1.16

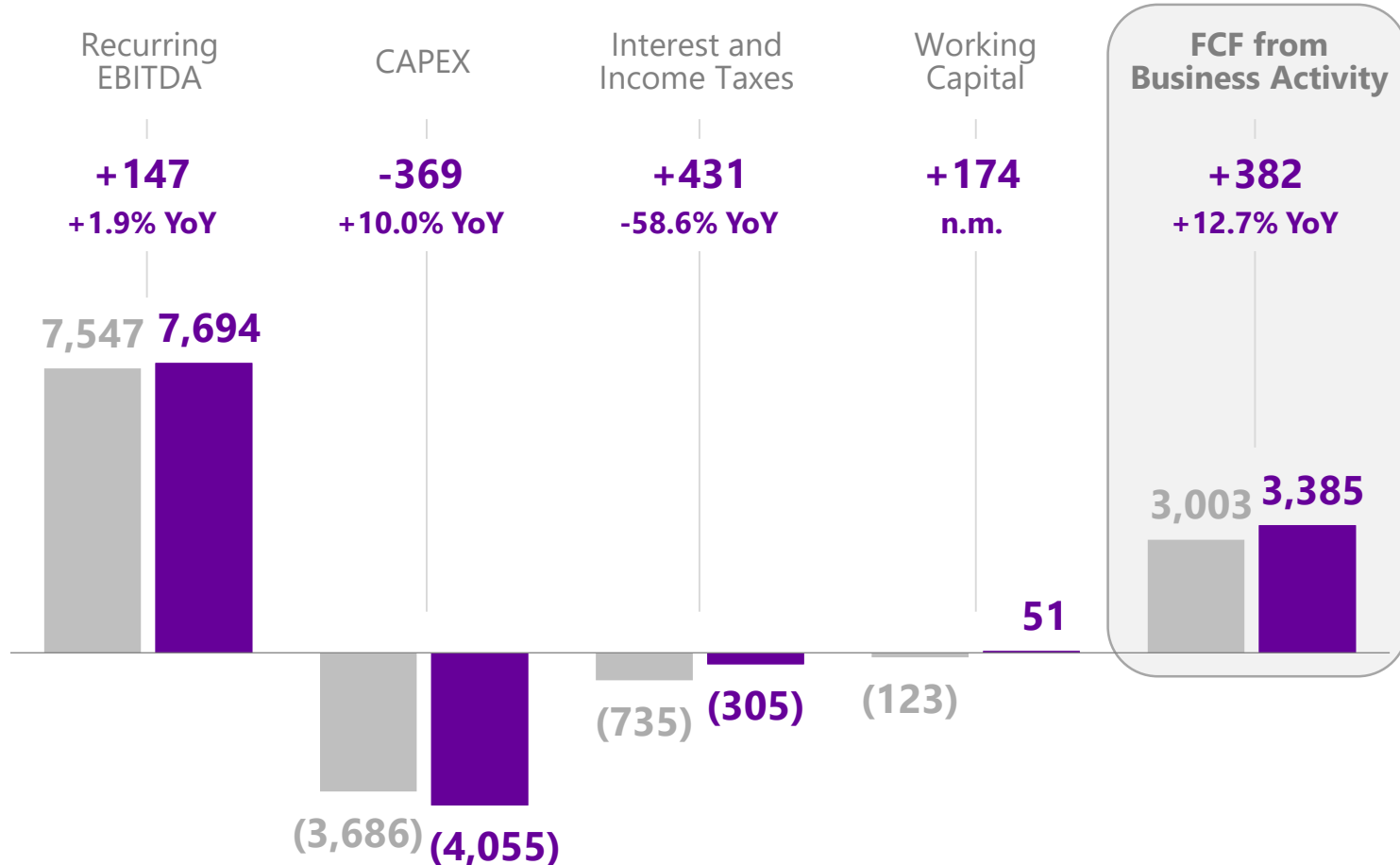
PAYMENT OF REMUNERATION BASED ON 2018 NET INCOME

Aug 20, 2019: R\$3.2 bn

Dec 17, 2019: R\$3.8 bn

➤ FREE CASH FLOW GROWING 13% YOY IN 1H19 DESPITE CAPEX ACCELERATION, DUE TO IMPROVED FINANCIAL MANAGEMENT AND EBITDA GROWTH

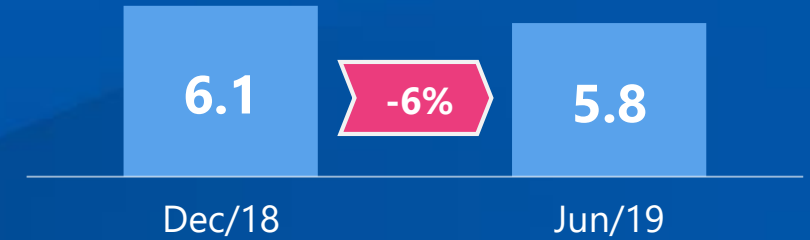
Free Cash Flow¹ R\$ million >>> 1H18 1H19



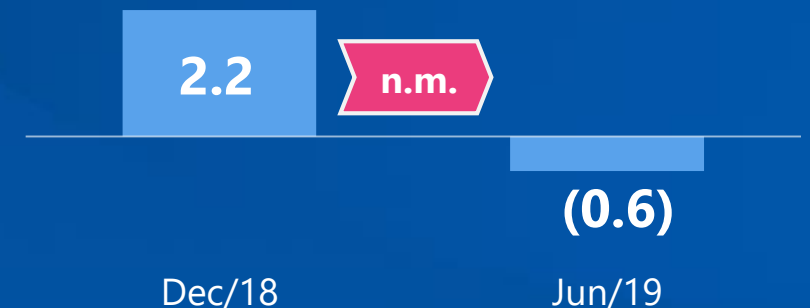
Strong balance sheet leading to net cash position



Gross Debt² R\$ billion



Net Debt² R\$ billion



Considering IFRS 16 effects, Net Debt reaches **R\$8.4 bn**

» EFFECTS OF IFRS 16 ON OUR 2Q19 RESULTS



» » » »

R\$ Million	Pro forma		Reported		
	2Q19 w/o IFRS16	Δ% YoY	IFRS Adjustments	2Q19 w/ IFRS16	Δ% YoY
Net Operating Revenue	10,870	0.4%	0	10,870	0.4%
Recurring Operating Costs	(7,079)	0.1%	474	(6,605)	-6.6%
Cost of Services Rendered	(2,854)	-2.4%	426	(2,428)	-16.9%
Commercial Expenses	(2,192)	-4.4%	19	(2,173)	-5.2%
G&A Expenses	(336)	-12.3%	30	(307)	-20.0%
Recurring EBITDA	3,791	1.0%	474	4,265	13.6%
Recurring EBITDA Margin	34.9%	0.2 p.p.	4.4 p.p.	39.2%	4.6 p.p.
Depreciation & Amortization	(2,167)	7.6%	(471)	(2,637)	31.0%
EBIT	1,624	-6.6%	4	1,628	-6.4%
Financial Result	(138)	-20.9%	(103)	(241)	38.5%
Taxes	(1)	-99.7%	34	33	-107.4%
Net Income	1,485	32.3%	(66)	1,420	26.4%

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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