

Corporate Presentation



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

September, 2019 >

Telefônica

vivo



➤ **VIVO:** LEADING PLAYER WITH THE BEST ASSETS TO CAPTURE GROWTH OPPORTUNITIES AND GENERATE HIGHER RETURNS

Outlook

- _ **Economy:** evolution of reforms create a positive perspective
- _ **Regulatory:** modernization of framework through PLC 79
- _ **Telecom Market:** significant opportunities in FTTH and digital services

Growth

- _ **Mobile:** quality differentiation driving better monetization
- _ **Fixed:** transformation of revenue mix driven by fiber
- _ **Beyond Telco:** Vivo as a partner hub for B2C, B2B and B2B2C
- _ **Unique Positioning:** unrivaled network, brand and channels

Efficiency and Returns

- _ **Costs:** EBITDA growth with digitalization and simplification
- _ **Capex:** smart allocation improving returns
- _ **Cash:** strong FCF generation, even with solid investments, supporting higher shareholder remuneration



Consistent **revenue and EBITDA growth**

Strong **FCF and Net Income** evolution

Sustainable **quality differentiation**

Increased **ROCE**

➤ IMPROVED OUTLOOK FOR THE ECONOMY AND REGULATION WILL ENABLE VIVO TO UNLOCK VALUE

Expected economic recovery going forward with a reform-focused agenda >>>

➤ Summary of Macro Outlook¹

	18A	19E	20E	21E	22E
GDP Growth %	1.1%	0.8%	2.5%	2.5%	2.5%
CPI %, EoP	3.7%	3.8%	3.8%	3.8%	3.5%
Exch. rate R\$/US\$	3.9	3.8	3.9	3.9	3.8

KEY DRIVERS

- _Confidence improving with concrete advances in economic reforms (Pension reform to generate ~R\$ 900bn in savings over 10 years)
- _Ambitious economic agenda moving forward (tax reform, growth, privatization, etc.)
- _Recovery in unemployment (peaked at 13.7% in 1Q17), with an increase in private consumption and investments
- _Lower inflation pressure, with long term currency stability

Positive evolution of the sector's regulation with the advance of PLC 79 >>>

_PLC 79 was finally approved by the Senate in September/19

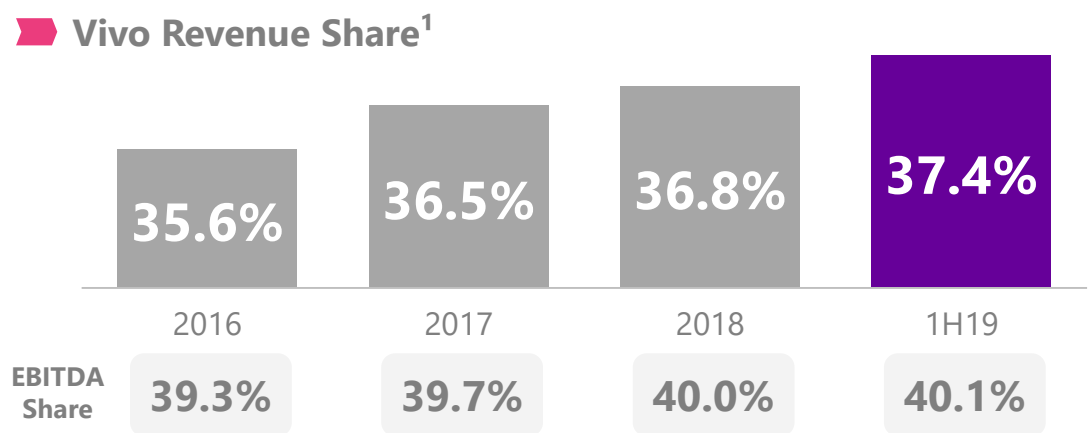
_New regulation will allow **fixed voice concessionaires to migrate to an authorization framework**, which has an updated, more modern approach

_Companies will be able to invest less in outdated technologies such as copper and **focus their capital on efficient, future-proof technologies such as fiber**

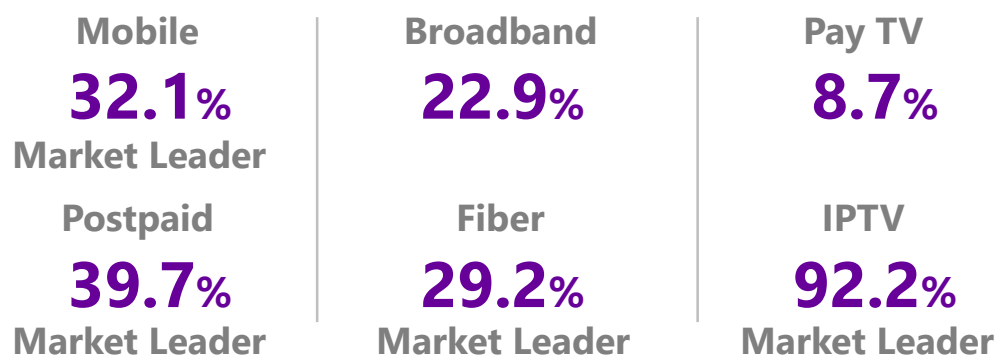
_PLC 79 is also important for the mobile business, as it allows for the **automatic renewal of spectrum** and for the creation of a **secondary spectrum market**

AS THE LEADING OPERATOR IN BRAZIL, VIVO IS WELL POSITIONED TO CAPTURE FUTURE GROWTH OPPORTUNITIES

Key metrics >>>



Vivo Accesses Market Share July/2019



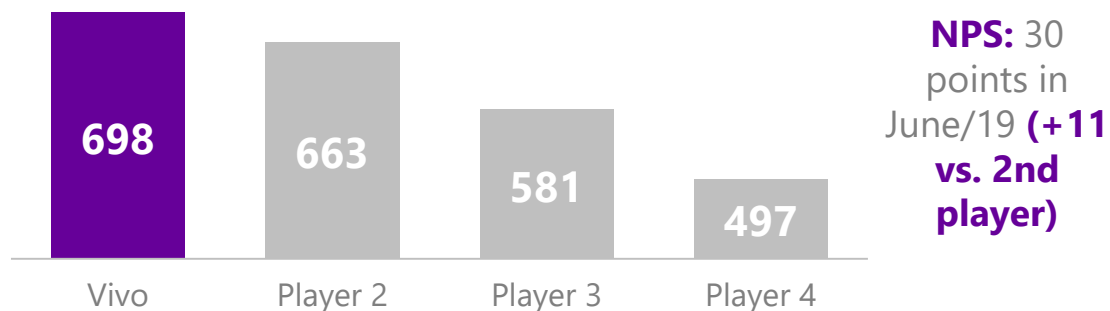
Key trends >>>

- 1 Market consolidation**
 Improving competitive scenario, capital intensive market and fragmented FBB players
- 2 Accelerated FTTH expansion**
 FBB will maintain a double-digit growth in the coming years, driven by low UBB penetration (18%)²
- 3 Preparation for 5G**
 2020 auction will kick-off the 5G era in Brazil. In the short term, telcos will focus on evolving LTE and fiber backhauled
- 4 Focus on new revenue streams**
 Aiming to play a role in Digital Services, telcos will partner with established OTT players
- 5 IoT massification**
 IoT will gain traction in Brazil, mainly in fleet management, agro, smart building and smart cities

UNMATCHED QUALITY OF NETWORK AND SERVICE TRANSLATES INTO BETTER MONETIZATION AND REVENUE PERSPECTIVE

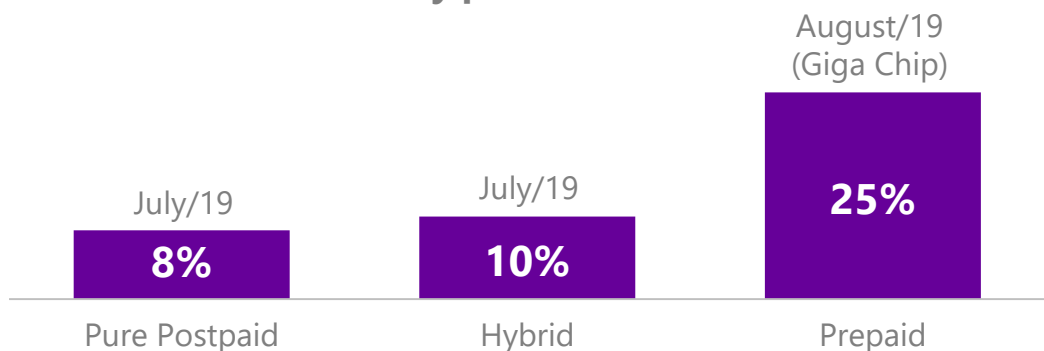
Vivo's mobile network is rated as the best in Brazil in terms of capacity, coverage and service quality... >>>

P3 connect 2019 Mobile Review Brazil Results¹



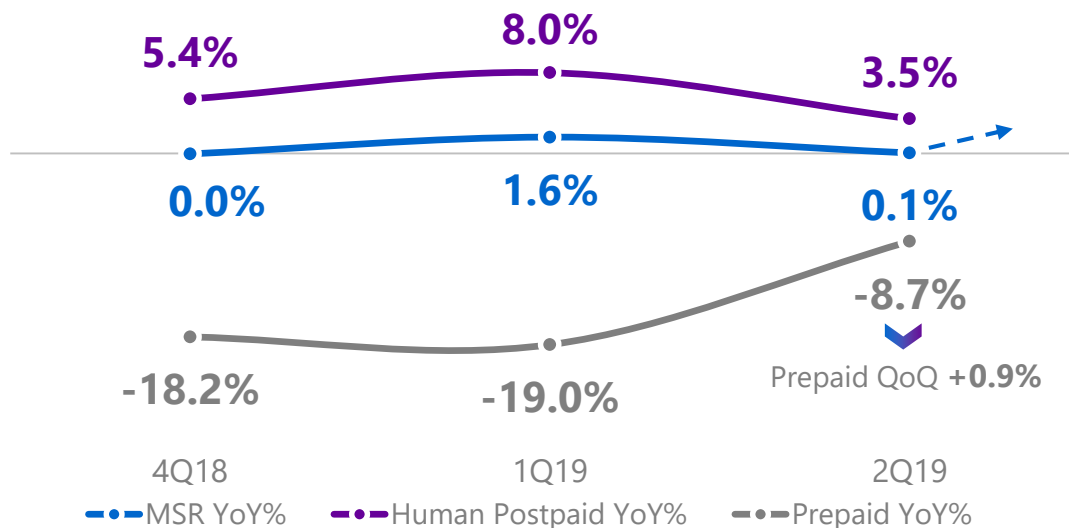
...allowing us to improve monetization and consistently increase prices,... >>>

Price increase of entry plans %



...that will lead us to improved trends in 2H19 both in postpaid and prepaid >>>

Mobile Service Revenue Growth YoY%



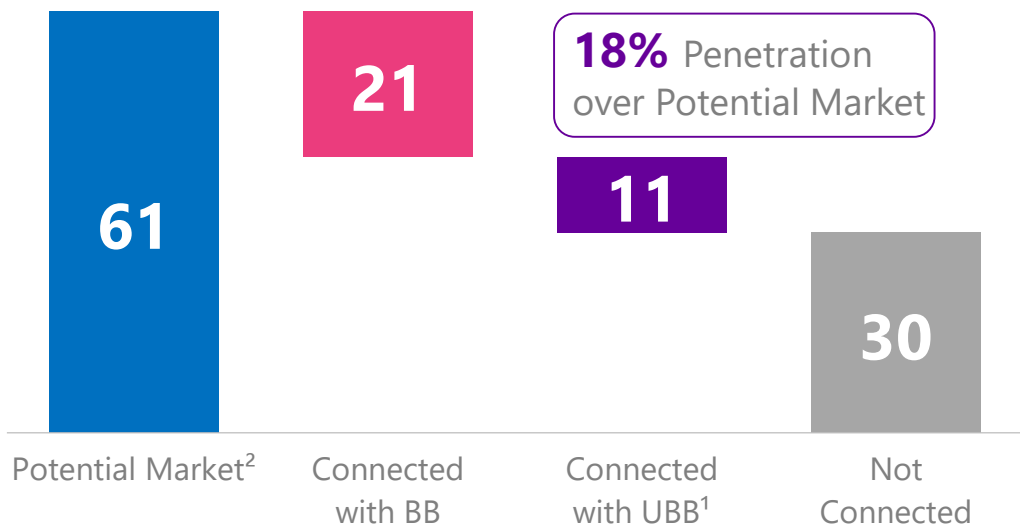
Human postpaid revenues growing 5.7% YoY in 1H19 mainly due to hybrid price increase in 1Q19

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

Improvement in prepaid due to better monetization of customer base

▶ REMARKABLE UBB OPPORTUNITY IN BRAZIL, AS PENETRATION IS STILL LOW AND DEMAND CONTINUES TO RISE

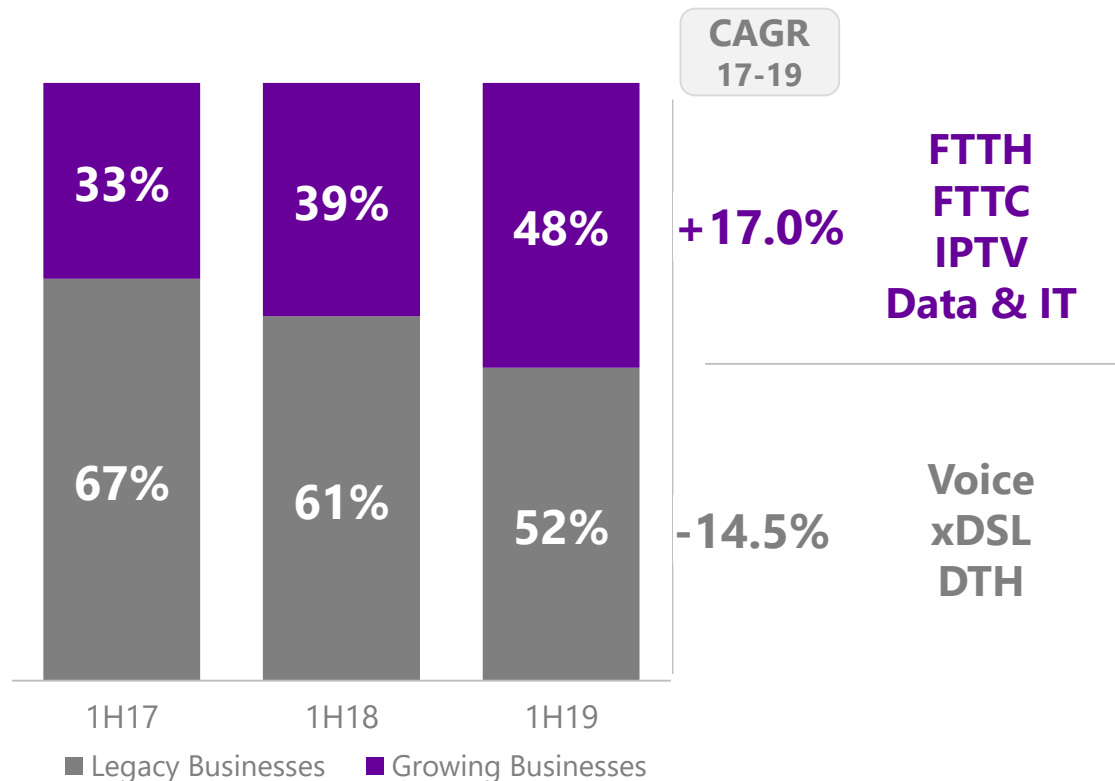
Penetration of UBB¹ in Brazil remains very low... >>>



...and Vivo is investing to capture the increasing demand >>>

- _FTTH cities: **152** (+52 YoY)
- _FTTH HPs: **10.0 million** (+2.1 million YoY)
- _FTTH customers: **2.2 million** (+37.9% YoY)
- _IPTV customers: **646 thousand** (+33.2% YoY)

As a result, we are transforming our fixed revenue mix and getting closer to overall growth >>>



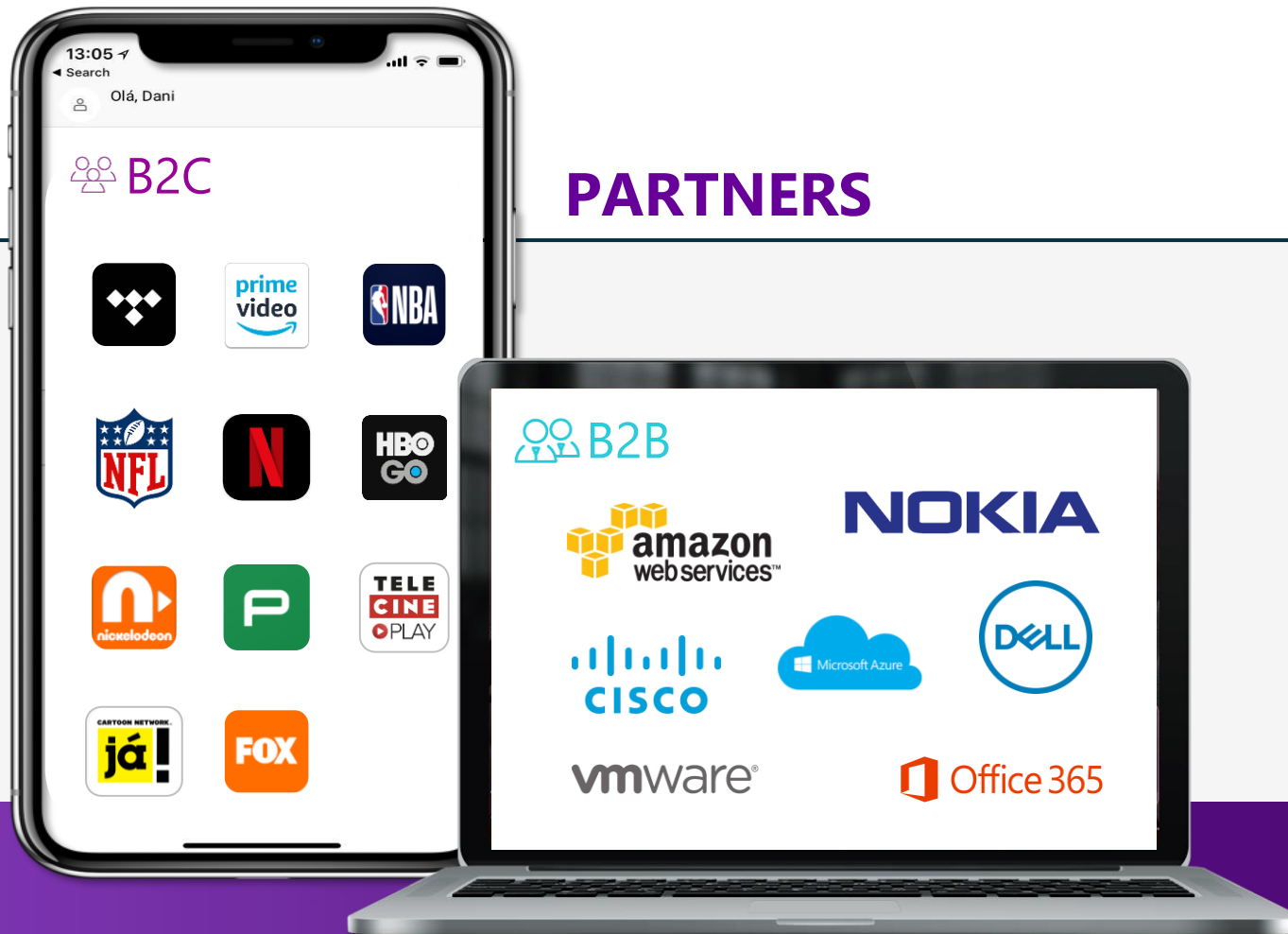
In 2Q19, **broadband revenues weighed more than voice revenues** for the first time ever

➤ VIVO IS QUICKLY ADVANCING BEYOND TELCO SERVICES, BY BECOMING A PARTNERSHIP HUB FOR DIGITAL SOLUTIONS

KEY ATTRIBUTES

- _ **Exclusive benefits** for Vivo's customers
- _ **One stop shop** for B2C and B2B
- _ **Simplified** shopping/payment experience
- _ **Carrier billing**: recurring relationship
- _ **Faster integration** with full-stack systems

Vivo as the hub for digital services

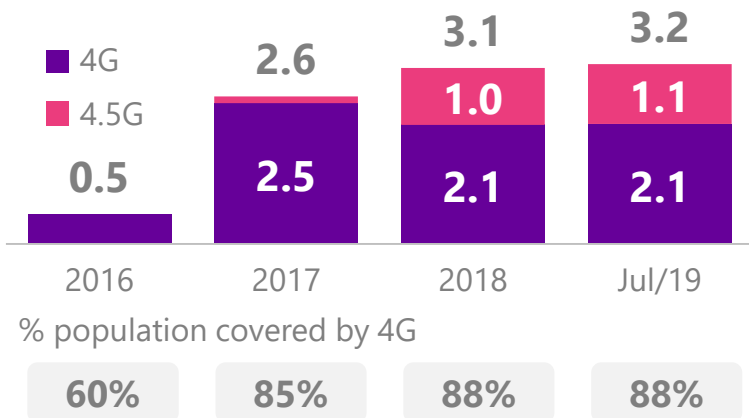


PARTNERS

➤ BEST NETWORK, SALES CHANNELS AND BRAND MAKE FOR A UNIQUE ASSET PORTFOLIO THAT ENABLES FUTURE GROWTH

Best set of network assets allowing for unmatched service quality in and out of home... >>>

➤ 4G Coverage Thousand Cities



% population covered by 4G



Combination of best-in-class 3G and 4G networks creating competitive advantage

➤ FTTH Coverage Million HPs



FTTH cities



Largest FTTH operator in Latin America, quickly expanding footprint

...with a non-replicable sales channel structure and brand >>>

1,600+ stores including own and resellers

9th most valuable Brazilian brand among all sectors¹

12,000+ points of sales

R\$2.3bn in brand value¹

E-commerce B2B and B2C

11x top of mind mobile carrier²

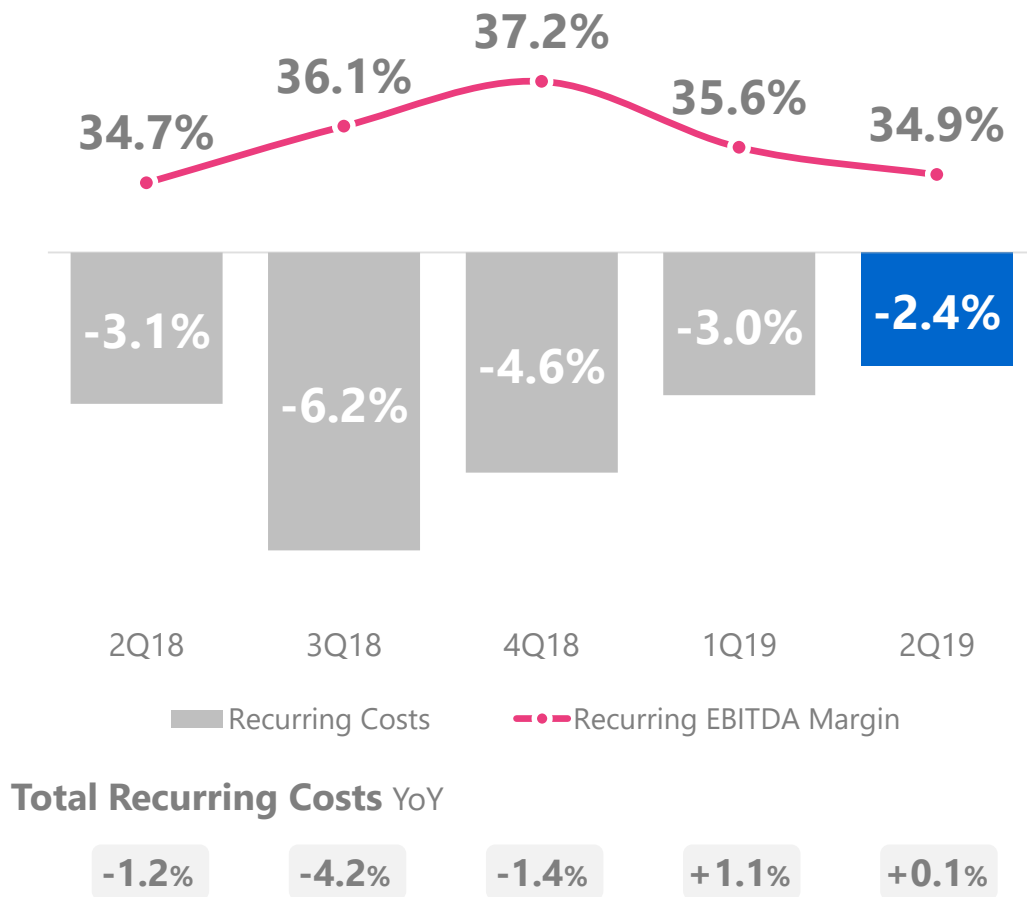
>5,000 B2B sale representatives

15x most reliable telecom brand³



▶ EFFECTIVE COST MANAGEMENT BACKED BY DIGITALIZATION AND SIMPLIFICATION INITIATIVES PRODUCING POSITIVE RESULTS

14 quarters in a row reducing costs ex-COGS¹ and expanding margins YoY >>>



Cost control has been driven by efforts related to digitalization and internal efficiency >>>

Creation and evolution of e-care platforms such as Meu Vivo and AURA positively impacting our Commercial Expenses

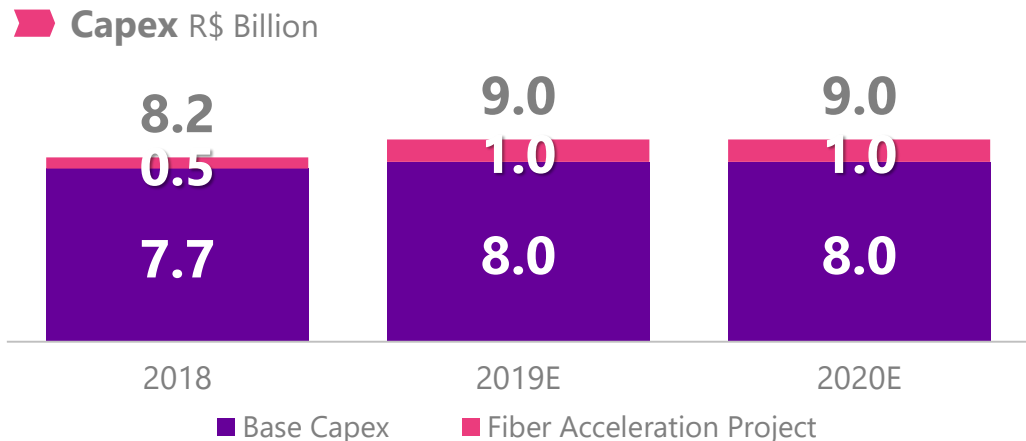
- _ >60% e-billing penetration reducing expenses with printing, posting and collections
- _ ≈20% YoY reduction of call center calls impacting call center expenses
- _ Double-digit YoY increase of digital top-ups reducing commissions

Transformation of internal processes to create a more efficient structure

- _ Investments in the development of a full stack IT platform simplifying and consolidating existing billing and CRM systems
- _ Automation of manual processes reducing back office operations

➤ IMPROVING ROCE WITH SMART CAPEX ALLOCATION BY DEPRIORITIZING LEGACY TECHNOLOGIES AND FOCUSING ON HIGHER-RETURN PROJECTS

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



Investments in growth technologies YoY%

4G	FTTH	IPTV	IT
+32.6%	+37.1%	+22.2%	+7.3%

- _Reducing investments in **legacy technologies**
- _**R\$7 billion** in 3 years to be invested in **FTTH expansion**
- _**Robust investment in 4G/4.5G** focused on enhancing quality

MOU signed with TIM for the sharing of 2G and 4G with potential to enhance Capex optimization >>>

2G network sharing in a Single Grid model

_2G frequencies released to be refarmed and used by other technologies

New sharing agreement concerning 4G network infrastructure

- _Sharing 4G in 700MHz for cities with <30k pop., expanding our nationwide 4G coverage with less Capex intensity

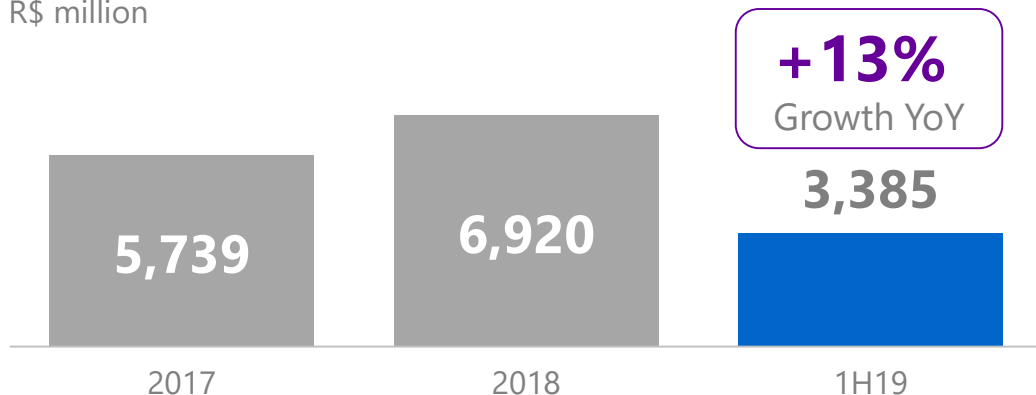
Efficiency and cost reduction opportunities regarding network operations and maintenance

_Sharing allows for the avoidance of Capex, that would be redirected for the expansion of 4.5G and FTTH networks, coupled with Opex efficiencies

➤ STRONG CASH FLOW GROWTH BOOSTED BY CASH TAX GAINS LEADING TO **HIGH LEVEL OF SHAREHOLDER REMUNERATION**

Free Cash Flow expanding double-digit driven by solid operating performance and tax gains >>>

Free Cash Flow From Business Activities
R\$ million



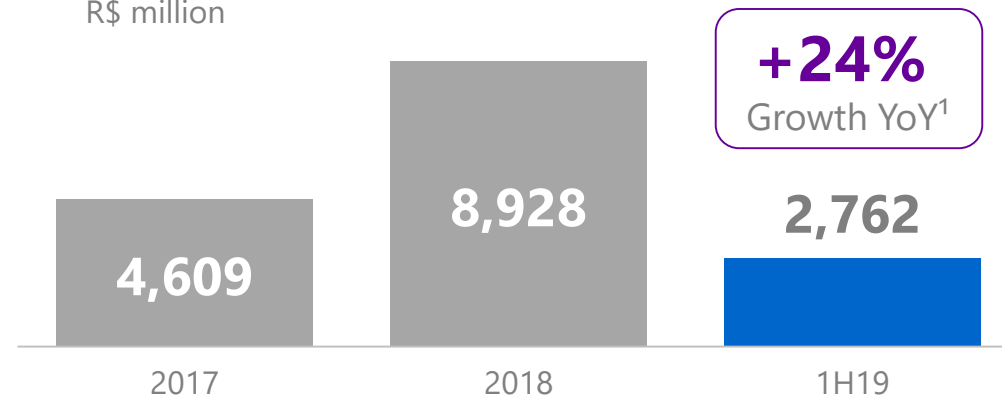
_FCF to be boosted by approx. R\$2 billion per year going forward due to tax assets registered in 2Q and 3Q18

_Cash tax gains represent approx. 7% of current market cap

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

Record Net Income registered in 2018 allowing for unmatched remuneration >>>

Net Income
R\$ million



_Net Income almost doubled in 2018, driven by continuous cost control, solid EBITDA growth, and the non-recurring effects in the year

_R\$7.0 billion of dividends and IOC declared in 2018, plus R\$2.2 billion in IOC already declared in 2019

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For further information:

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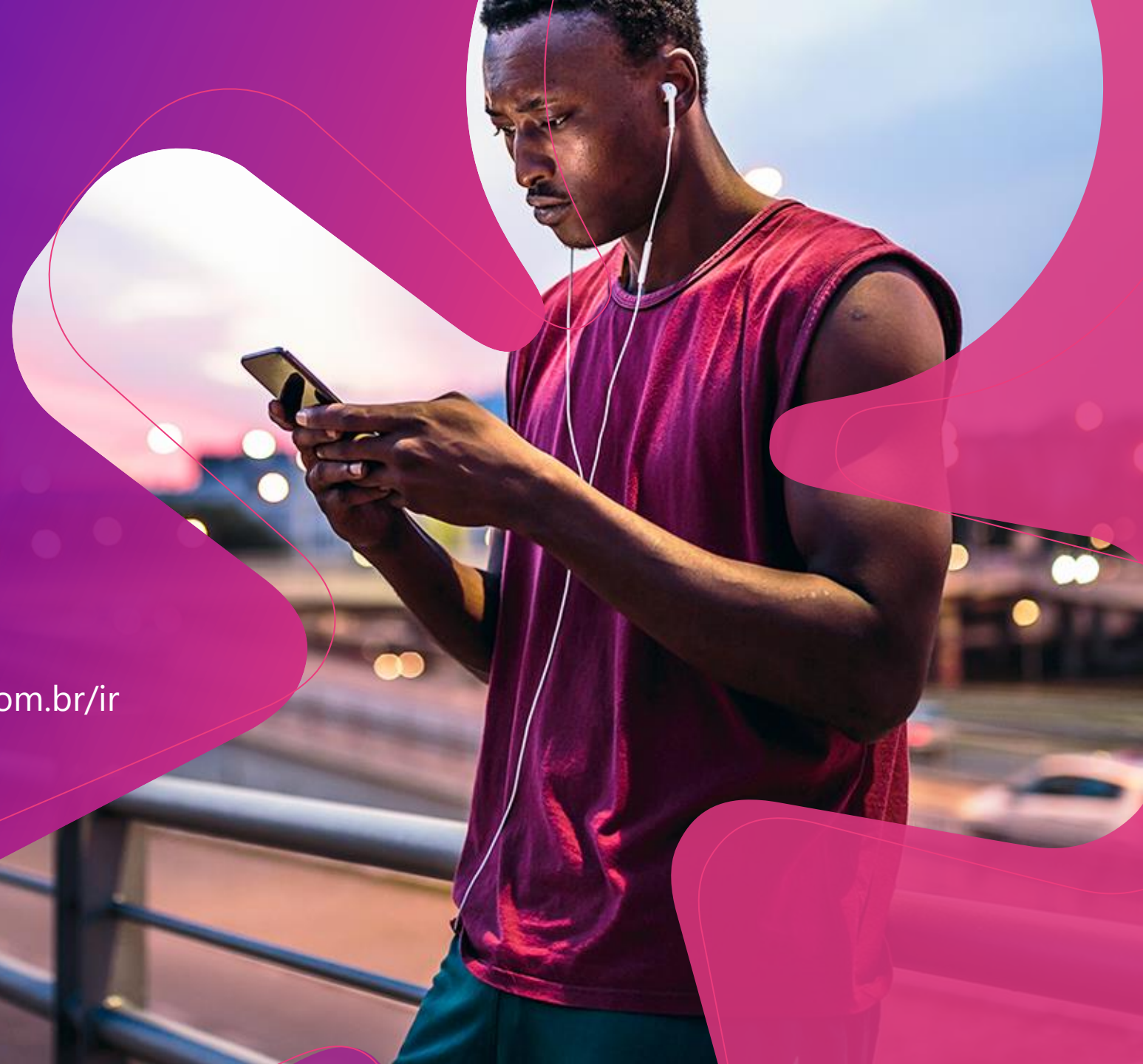
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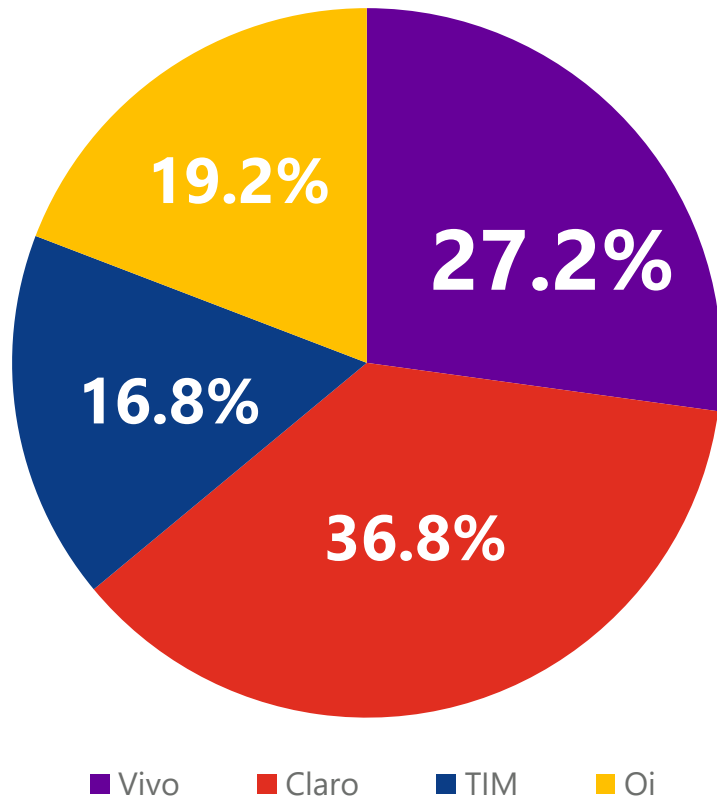
[B]³
BRASIL
BOLSA
BALCÃO



DETAILED 2019 MOBILE MARKET

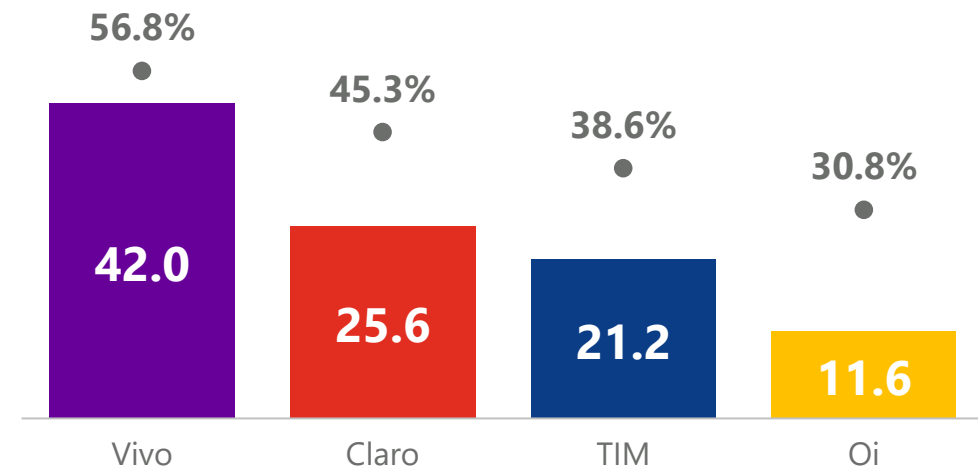
Lower level of net adds YTD due to price increases, especially in hybrid >>>

Share of postpaid net adds 2019 YTD

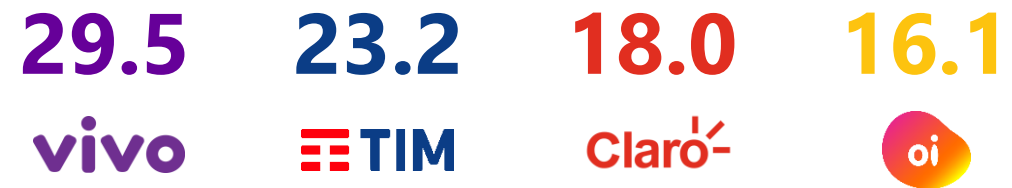


Even so, we remain as undisputed leaders in postpaid, with the best mix and ARPU of the industry >>>

Postpaid customers (million) and mix of postpaid customers



Mobile ARPU 2Q19 R\$



HIGHLIGHTS

Consolidated in R\$ million	Pro forma (ex-IFRS 16) ¹				Reported			
	2Q19	Δ% YoY	6M19	Δ% YoY	2Q19	Δ% YoY	6M19	Δ% YoY
NET OPERATING REVENUES	10,870	0.4	21,845	1.1	10,870	0.4	21,845	1.1
Net Mobile Revenues	6,972	2.3	14,053	3.5	6,972	2.3	14,053	3.5
Net Handsets Revenues	631	31.9	1,229	42.3	631	31.9	1,229	42.3
Net Fixed Revenues	3,897	(2.8)	7,792	(3.0)	3,897	(2.8)	7,792	(3.0)
OPERATING COSTS	(7,079)	26.0	(14,151)	12.2	(6,605)	17.5	(13,219)	4.8
<i>Recurring Operating Costs</i> ²	<i>(7,079)</i>	<i>0.1</i>	<i>(14,151)</i>	<i>0.6</i>	<i>(6,605)</i>	<i>(6.6)</i>	<i>(13,219)</i>	<i>(6.0)</i>
EBITDA	3,791	(27.1)	7,694	(14.5)	4,265	(18.0)	8,625	(4.1)
EBITDA MARGIN	34.9%	(13.2) p.p.	35.2%	(6.4) p.p.	39.2%	(8.8) p.p.	39.5%	(2.1) p.p.
<i>Recurring EBITDA</i> ²	<i>3,791</i>	<i>1.0</i>	<i>7,694</i>	<i>1.9</i>	<i>4,265</i>	<i>13.6</i>	<i>8,625</i>	<i>14.3</i>
<i>Recurring EBITDA Margin</i> ²	<i>34.9%</i>	<i>0.2 p.p.</i>	<i>35.2%</i>	<i>0.3 p.p.</i>	<i>39.2%</i>	<i>4.6 p.p.</i>	<i>39.5%</i>	<i>4.6 p.p.</i>
NET INCOME	1,485	(53.1)	2,872	(32.6)	1,420	(55.2)	2,762	(35.2)
CAPEX	2,360	10.3	4,055	10.0	2,360	10.3	4,055	10.0
OPERATING CASH FLOW (EBITDA - CAPEX)	1,431	(53.3)	3,639	(31.5)	1,905	(37.8)	4,570	(14.0)
TOTAL SUBSCRIBERS (THOUSAND)	94,364	(3.5)	94,364	(3.5)	94,364	(3.5)	94,364	(3.5)
Mobile Subscribers	73,744	(2.0)	73,744	(2.0)	73,744	(2.0)	73,744	(2.0)
Fixed Subscribers	20,619	(8.5)	20,619	(8.5)	20,619	(8.5)	20,619	(8.5)

NET OPERATING REVENUES | MOBILE SERVICES

Consolidated in R\$ million	2Q19	Δ% YoY	6M19	Δ% YoY
NET OPERATING MOBILE REVENUES	6,972	2.3	14,053	3.5
Net Mobile Service Revenues	6,341	0.1	12,824	0.8
Data and Digital Services	5,199	4.9	10,543	6.4
Voice	1,141	(17.1)	2,274	(19.0)
Others	1	(62.0)	6	42.8
Net Handset Revenues	631	31.9	1,229	42.3

NET OPERATING REVENUES | FIXED SERVICES

Consolidated in R\$ million	2Q19	Δ% YoY	6M19	Δ% YoY
NET OPERATING FIXED REVENUES	3,897	(2.8)	7,792	(3.0)
Broadband⁶	1,392	12.3	2,778	12.4
FTTH	481	55.1	918	52.4
Other Technologies	911	(2.0)	1,860	(0.5)
Pay TV	466	(1.8)	938	(0.9)
IPTV	217	40.5	416	42.6
Other Technologies	249	(22.2)	521	(20.3)
Corporate Data and IT	658	3.8	1,274	4.3
Fixed Voice	1,371	(16.9)	2,780	(17.7)
Others	10	18.3	22	38.2

OPERATING PERFORMANCE | MOBILE SERVICES

Thousand	2Q19	Δ% YoY	6M19	Δ% YoY
TOTAL SUBSCRIBERS	73,744	(2.0)	73,744	(2.0)
Postpaid	41,714	8.5	41,714	8.5
M2M	9,126	28.3	9,126	28.3
Prepaid	32,030	(13.0)	32,030	(13.0)
MARKET SHARE	32.2%	0.2 p.p.	32.2%	0.2 p.p.
Postpaid	40.0%	(1.3) p.p.	40.0%	(1.3) p.p.
Prepaid	25.8%	(0.2) p.p.	25.8%	(0.2) p.p.
ARPU (R\$/month)	28.7	2.1	29.1	3.0
Postpaid (Human)	51.2	(1.6)	52.2	(0.0)
M2M	2.9	5.9	2.9	8.1
Prepaid	12.3	5.0	12.2	(0.8)
MONTHLY CHURN	3.4%	0.4 p.p.	3.3%	0.2 p.p.
Postpaid (ex-M2M)	1.8%	0.0 p.p.	1.8%	0.1 p.p.
Prepaid	5.1%	0.9 p.p.	5.0%	0.7 p.p.

OPERATING PERFORMANCE | FIXED SERVICES

Thousand	2Q19	Δ% YoY	6M19	Δ% YoY
TOTAL SUBSCRIBERS	20,619	(8.5)	20,619	(8.5)
Fixed Broadband	7,268	(2.6)	7,268	(2.6)
FTTH	2,170	37.9	2,170	37.9
Other Technologies	5,098	(13.4)	5,098	(13.4)
Pay TV	1,460	(9.5)	1,460	(9.5)
IPTV	648	33.2	648	33.2
Other Technologies	812	(28.0)	812	(28.0)
Voice	11,891	(11.7)	11,891	(11.7)
MARKET SHARE Fixed Broadband	23.3%	(1.6) p.p.	23.3%	(1.6) p.p.
Market Share FTTH	29.6%	(7.2) p.p.	29.6%	(7.2) p.p.
MARKET SHARE Pay TV	8.8%	(0.2) p.p.	8.8%	(0.2) p.p.
Market Share IPTV	93.8%	11.4 p.p.	93.8%	11.4 p.p.
MARKET SHARE Voice	33.2%	(1.0) p.p.	33.2%	(1.0) p.p.
ARPU Broadband (R\$/month)	63.3	14.2	62.8	13.5
ARPU Pay TV (R\$/month)	104.1	5.4	102.9	4.1
ARPU Voice (R\$/month)⁵	36.1	(8.8)	35.8	(10.9)

2Q19 IFRS INCOME STATEMENT

Consolidated in R\$ million	2Q19	Δ% YoY	6M19	Δ% YoY
GROSS OPERATING REVENUE	16,345	0.0	33,028	1.1
Gross Operating Mobile Revenue	10,447	0.9	21,293	2.8
Gross Operating Fixed Revenue	5,898	(1.6)	11,735	(2.2)
NET OPERATING REVENUE	10,870	0.4	21,845	1.1
Net Operating Mobile Revenue	6,972	2.3	14,053	3.5
Net Operating Fixed Revenue	3,897	(2.8)	7,792	(3.0)
OPERATING COSTS	(6,605)	17.5	(13,219)	4.8
Personnel	(922)	(13.3)	(1,826)	(9.8)
Costs of Services Rendered	(2,428)	(16.9)	(4,877)	(14.4)
Interconnection	(251)	(35.9)	(556)	(17.7)
Taxes and Contributions	(405)	(5.6)	(814)	(3.4)
Third-party Services	(1,440)	8.5	(2,819)	4.6
Others	(332)	(57.2)	(688)	(53.7)
Cost of Goods Sold	(752)	27.2	(1,506)	40.0
Commercial Expenses	(2,173)	(5.2)	(4,389)	(2.9)
Provision for Bad Debt	(397)	7.7	(823)	7.4
Third-party Services	(1,710)	(5.0)	(3,434)	(2.9)
Others	(66)	(46.4)	(132)	(39.1)
General and Administrative Expenses	(307)	(20.0)	(613)	(19.1)
Other Net Operating Revenue (Expenses)	(23)	n.a.	(8)	n.a.
EBITDA	4,265	(18.0)	8,625	(4.1)
EBITDA Margin %	39.2%	(8.8) p.p.	39.5%	(2.1) p.p.
DEPRECIATION AND AMORTIZATION	(2,637)	31.0	(5,226)	30.3
Depreciation	(1,918)	41.3	(3,806)	40.9
Amortization of Intangibles	(421)	19.3	(818)	15.8
Others Amortizations	(299)	(1.5)	(603)	(0.5)
EBIT	1,628	(49.0)	3,400	(31.8)
FINANCIAL RESULT	(241)	n.a.	(331)	n.a.
GAIN (LOSS) ON INVESTMENTS	0	0.0	0	n.a.
Taxes	33	n.a.	(308)	(84.8)
NET INCOME	1,420	(55.2)	2,762	(35.2)

