

Corporate Presentation



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

November, 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%	0.9%	2.0%	2.5%	2.5%
CPI %, EoP	3.7%	3.3%	3.6%	3.8%	3.5%
Exch. rate R\$/US\$	3.9	4.0	4.0	4.0	4.0

KEY DRIVERS

_Confidence improving with concrete advances in economic reforms (Pension reform approved in the Senate, expected to generate ~R\$ 800bn 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

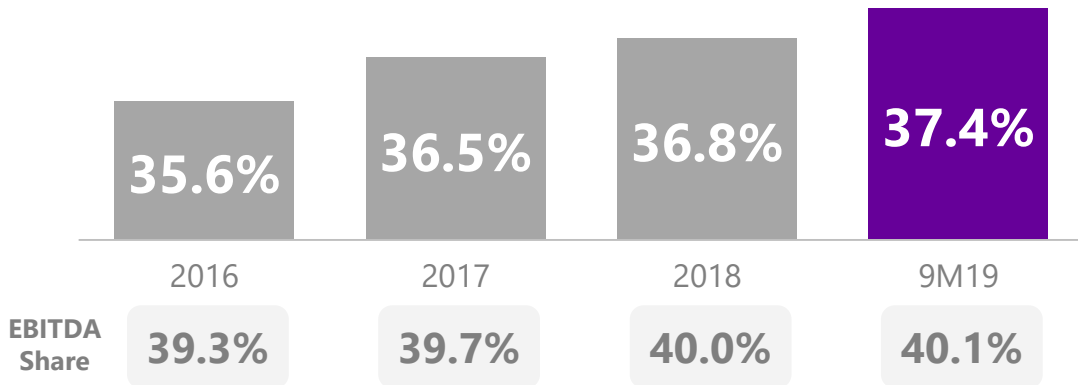
_Companies will be able to invest less in outdated technologies such as copper and **focus their capital on efficient, future-proof technologies such as fiber**

_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**

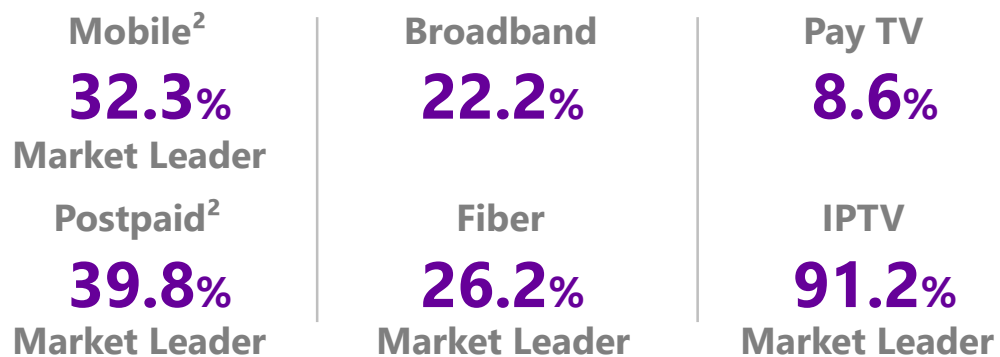
AS THE LEADING OPERATOR IN BRAZIL, VIVO IS WELL POSITIONED TO CAPTURE FUTURE GROWTH OPPORTUNITIES

Key metrics >>>

Vivo Revenue Share¹



Vivo Accesses Market Share September/2019



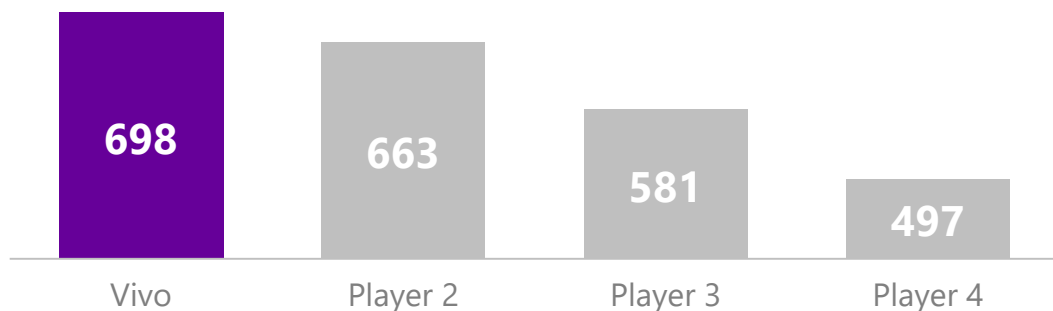
Key trends >>>

- 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 (19%)³
- 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 ALLOWS FOR ENHANCED EXPERIENCE AND RATIONAL COMMERCIAL APPROACH

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

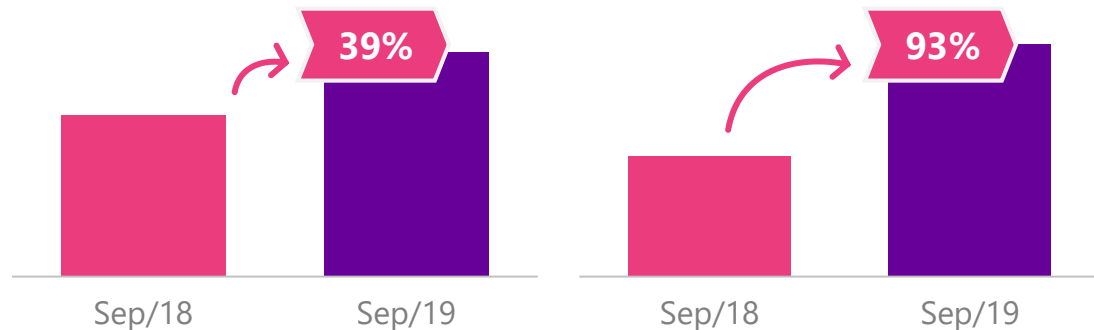
P3 connect 2019 Mobile Review Brazil Results¹



Data consumption continues to rise, concentrated on 4G, which already accounts for 71% of total traffic >>>

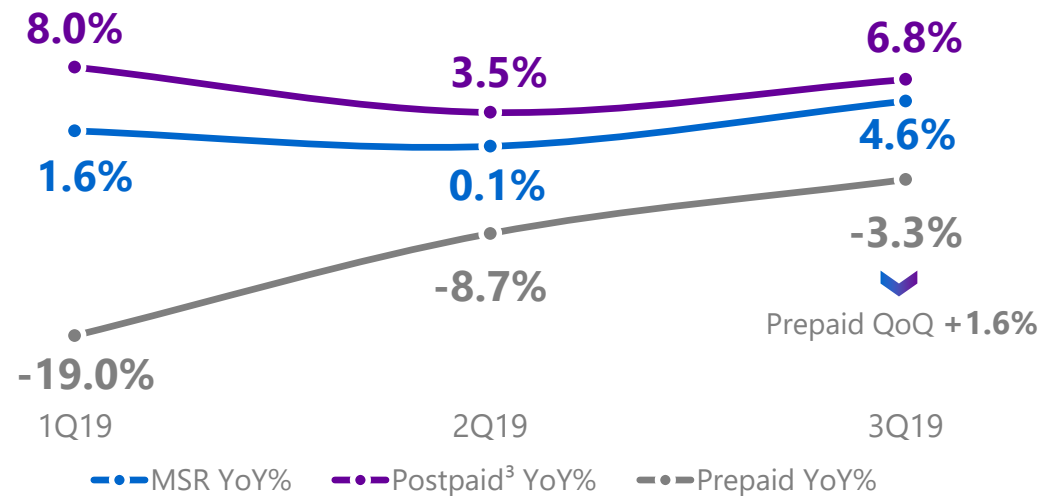
GBoU per month

4G Traffic Petabytes

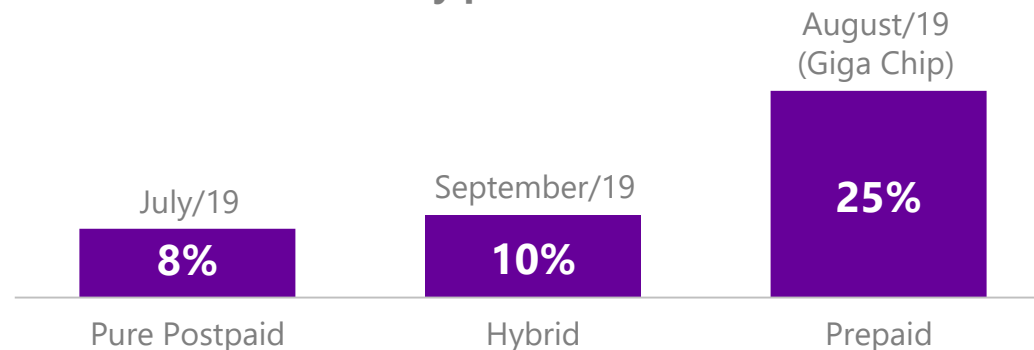


Price increases across all segments carried out during the year leading Vivo to improve MSR evolution >>>

Mobile Service Revenue Growth YoY%

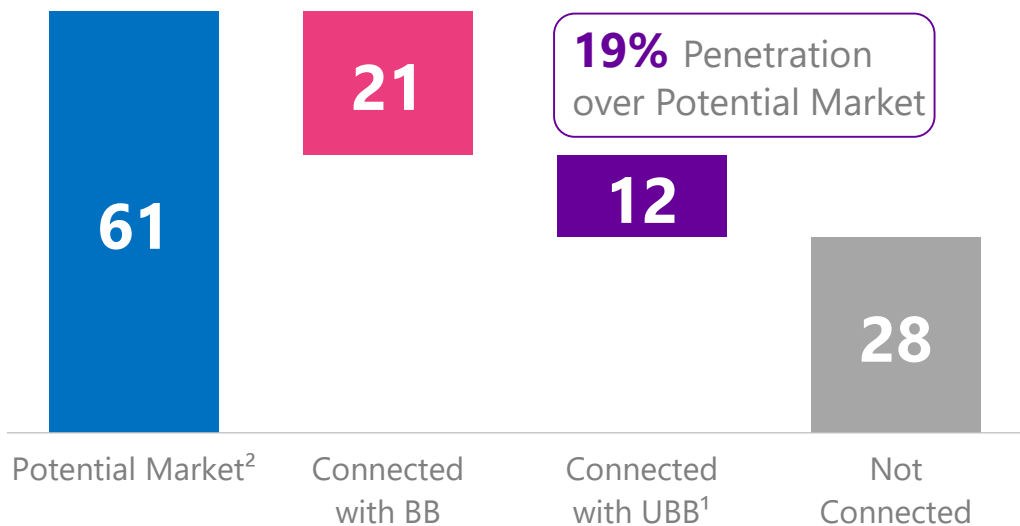


Price increase of entry plans %



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

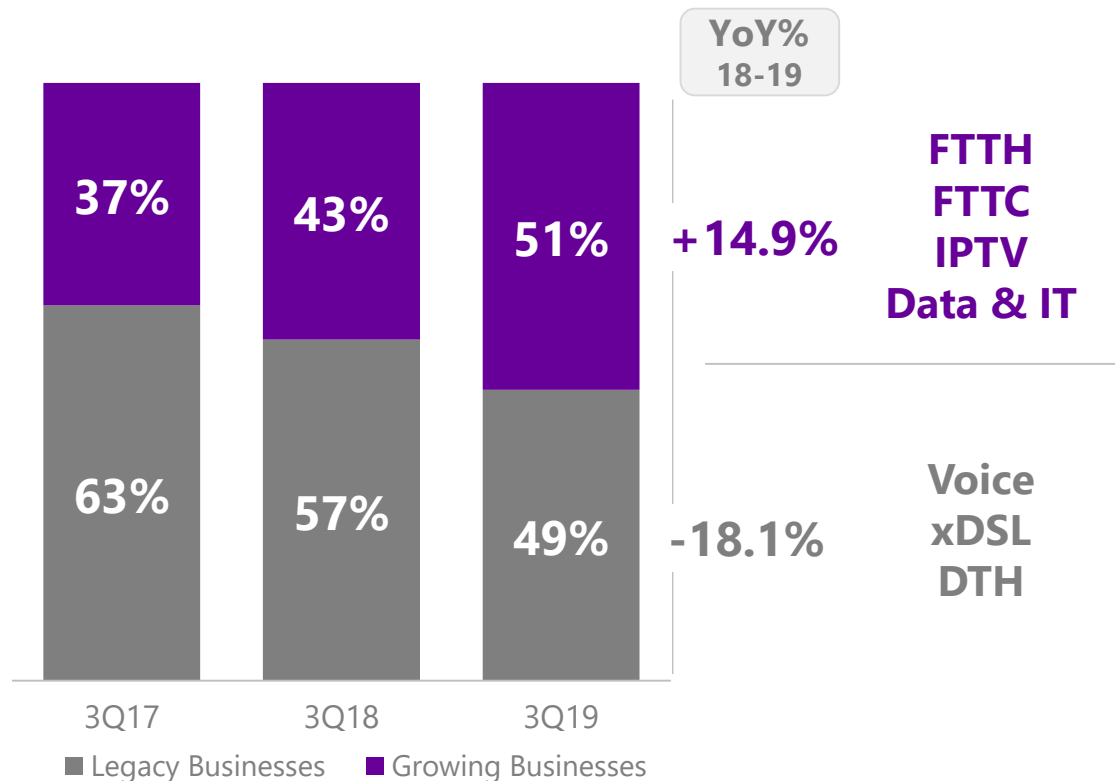
Penetration of UBB¹ in Brazil remains very low... >>>



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

- _FTTH cities: **154** (+58 YoY)
- _FTTH HPs: **10.2 million** (+2.2 million YoY)
- _FTTH customers: **2.3 million** (+34.0% YoY)
- _IPTV customers: **681 thousand** (+27.0% YoY)

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



In 3Q19, revenues from growing businesses weighed more than legacy for the first time ever

➤ ALTERNATIVE MODELS TO ACCELERATE FIBER EXPANSION WITH LESS CAPEX AND REDUCED TIME TO MARKET

Partnership



- › **Partner builds and operates** Homes Passed (HP) infrastructure
- › Vivo invests in the customer premises, offering connectivity using the **Vivo Fibra brand**

- › **Launch of >40 cities in the state of Minas Gerais**, covering around 4 million inhabitants
- › **≈800k HPs** to be built over 3 years
- › **Protecting strong mobile position in Minas Gerais** through convergence

- › Partner responsible for **Capex per HP**
- › **Variable cost model** to protect returns
- › **Relevant OpCF generation** and solid return on investment

Franchising



- › **Franchisee builds and operates the network** and manages the customer relationship, selling through the **Terra brand**
- › Vivo provides the **know-how, brand, backbone, call center, scale with suppliers**, among others

- › Targeting neighborhoods and cities **where Vivo currently does not provide ultra broadband services**
- › **First franchises already sold**, with initial delivery already in 2019

- › **Franchisee is responsible for the Capex per HP+HC¹**, with financial model based on a **royalty fee** over gross revenues
- › No Capex impact, **with positive return**

Leveraging on new operating models to reduce time to market...

...expanding FTTH footprint...

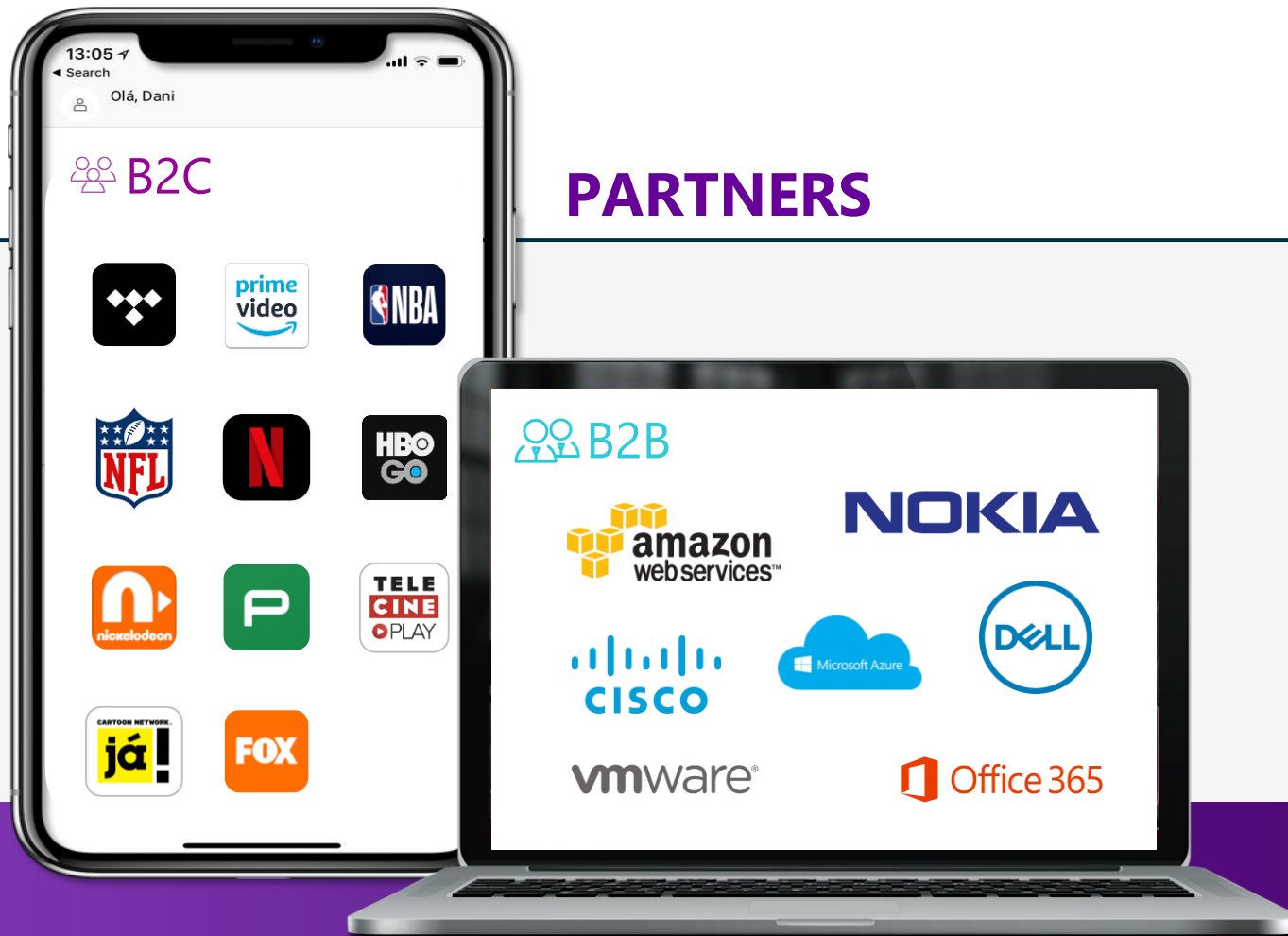
...with limited Capex impact and alternative financial structures

➤ 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

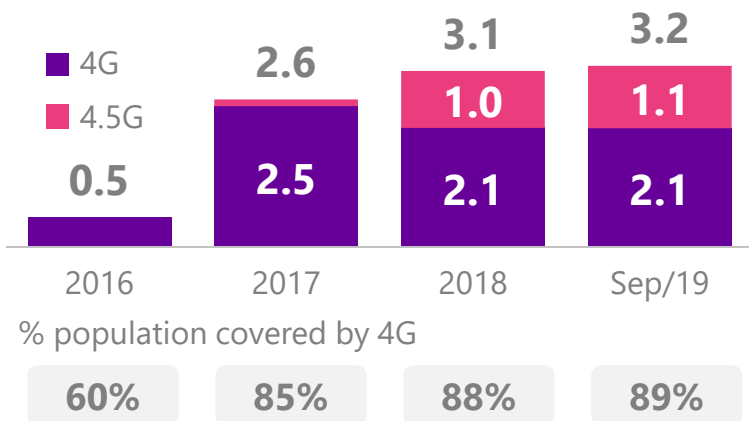


PARTNERS

➤ 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



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

% population covered by 4G



➤ FTTH Coverage Million HPs



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

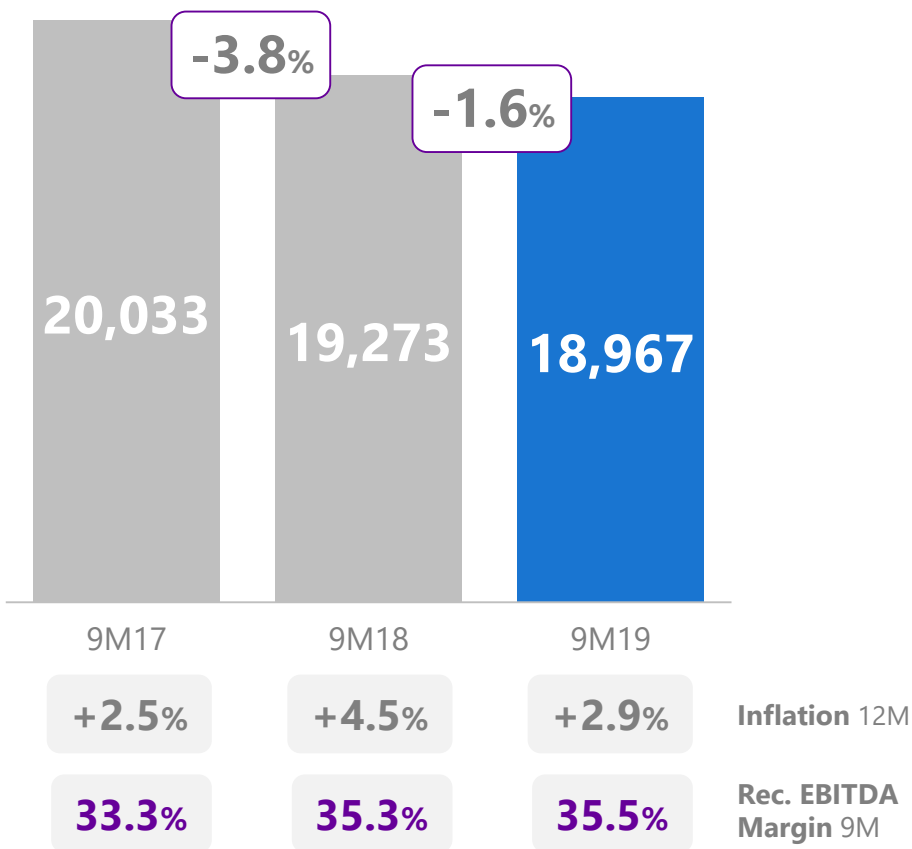
15x most reliable telecom brand³



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

Consistent reduction of Costs ex-COGS leading to profitability expansion >>>

Costs ex-COGS R\$ million

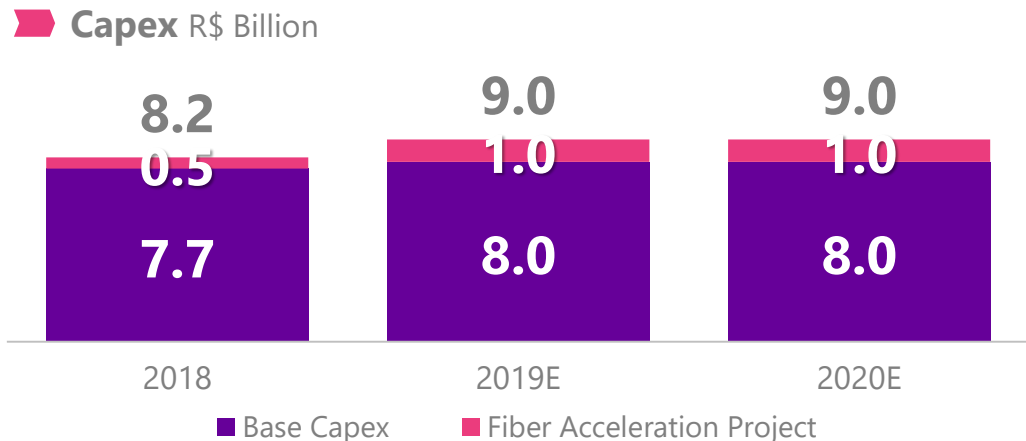


Evolution in digitalization of customer relationship and additional opportunities in automation of processes >>>

	Billing & Collection	Customer Care with AI (AURA)	Post-Sales & Maintenance
FRONT OFFICE KPIs presenting positive evolution, optimizing our cost structure	65% e-billing penetration (+24% YoY)	+14% YoY unique Meu Vivo app users	14% of B2C technical support is digital
BACK OFFICE Accelerating automation of processes, with strong potential for cost reduction	51% of payments on e-care platforms	-20% YoY human call center calls	41% of fixed problems solved remotely
	Humanized robots being used to contact overdue customers, with positive results in terms of assertiveness and responses	Bots contacting customers by WhatsApp (AURA) to schedule and confirm technical visits, reducing back offices and call centers	Use of robots to run failure tests before a technician is deployed, reducing unproductive visits

➤ 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
+44.8%	+24.8%	+17.0%	+16.0%

- _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

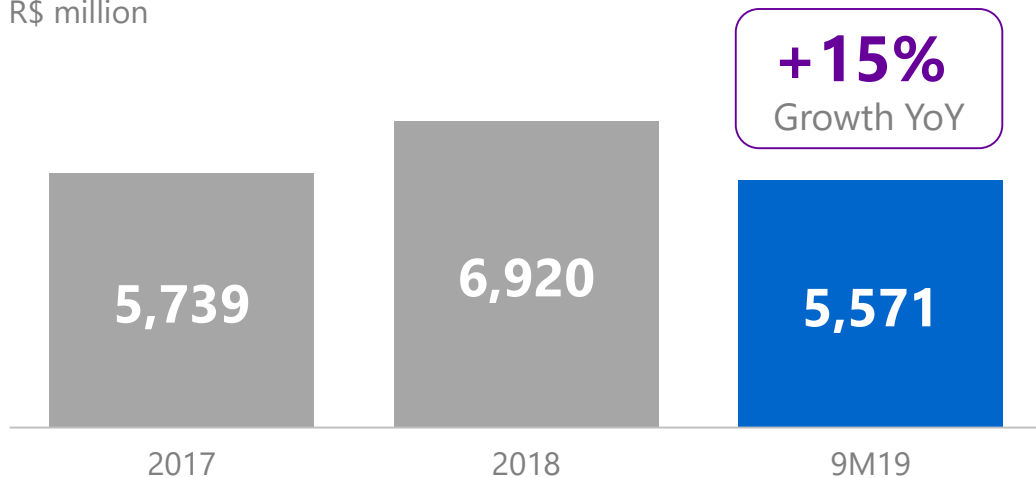
_Sharing allows for the avoidance of Capex, that would be redirected for the expansion of 4.5G and FTTH networks, coupled with Opex efficiencies

MoU is progressing as planned, expected to be concluded and announced to the market in the next few months

➤ 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



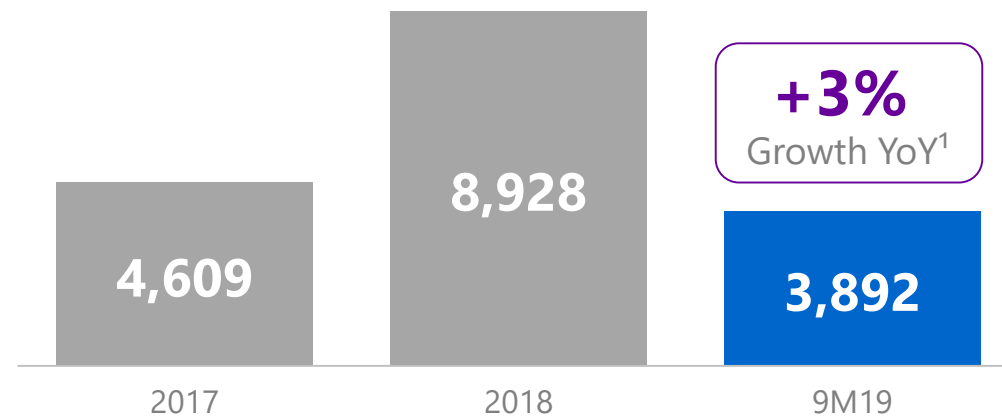
_FCF to be boosted by approx. R\$2 billion per year going forward due to tax assets registered in 2Q and 3Q18

_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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3Q19 HIGHLIGHTS

Consolidated in R\$ million	Pro forma (ex-IFRS 16) ¹				Reported			
	3Q19	Δ% YoY	9M19	Δ% YoY	3Q19	Δ% YoY	9M19	Δ% YoY
NET OPERATING REVENUES	11,047	2.6	32,891	1.6	11,047	2.6	32,891	1.6
Net Mobile Revenues	7,161	6.6	21,214	4.5	7,161	6.6	21,214	4.5
Net Handsets Revenues	645	31.5	1,874	38.4	645	31.5	1,874	38.4
Net Fixed Revenues	3,886	(3.9)	11,677	(3.3)	3,886	(3.9)	11,677	(3.3)
OPERATING COSTS	(6,987)	16.8	(21,138)	13.7	(6,506)	8.7	(19,725)	6.1
<i>Recurring Operating Costs</i> ²	<i>(7,051)</i>	<i>2.5</i>	<i>(21,202)</i>	<i>1.2</i>	<i>(6,570)</i>	<i>(4.5)</i>	<i>(19,789)</i>	<i>(5.5)</i>
EBITDA	4,060	(15.1)	11,753	(14.7)	4,541	(5.0)	13,167	(4.4)
EBITDA Margin	36.7%	(7.7) p.p.	35.7%	(6.8) p.p.	41.1%	(3.3) p.p.	40.0%	(2.5) p.p.
<i>Recurring EBITDA</i> ²	<i>3,995</i>	<i>2.8</i>	<i>11,689</i>	<i>2.2</i>	<i>4,477</i>	<i>15.2</i>	<i>13,102</i>	<i>14.6</i>
<i>Recurring EBITDA Margin</i> ²	<i>36.2%</i>	<i>0.1 p.p.</i>	<i>35.5%</i>	<i>0.2 p.p.</i>	<i>40.5%</i>	<i>4.4 p.p.</i>	<i>39.8%</i>	<i>4.5 p.p.</i>
NET INCOME	1,046	(67.1)	3,944	(47.0)	965	(69.6)	3,727	(49.9)
CAPEX	2,432	1.6	6,487	6.7	2,432	1.6	6,487	6.7
OPERATING CASH FLOW (EBITDA - CAPEX)	1,564	4.8	5,202	(2.8)	2,045	37.1	6,615	23.6
TOTAL SUBSCRIBERS (THOUSAND)	93,722	(3.1)	93,722	(3.1)	93,722	(3.1)	93,722	(3.1)
Mobile Subscribers	73,833	(0.8)	73,833	(0.8)	73,833	(0.8)	73,833	(0.8)
Fixed Subscribers	19,888	(10.8)	19,888	(10.8)	19,888	(10.8)	19,888	(10.8)

NET OPERATING REVENUES | MOBILE SERVICES

Consolidated in R\$ million	3Q19	Δ% YoY	9M19	Δ% YoY
NET OPERATING MOBILE REVENUES	7,161	6.6	21,214	4.5
Net Mobile Service Revenues	6,516	4.6	19,340	2.1
Data and Digital Services	5,211	5.5	15,754	6.1
Voice	1,304	1.2	3,578	(12.6)
Others	1	n.a.	8	113.3
Net Handset Revenues	645	31.5	1,874	38.4

NET OPERATING REVENUES | FIXED SERVICES

Consolidated in R\$ million	3Q19	Δ% YoY	9M19	Δ% YoY
NET OPERATING FIXED REVENUES	3,886	(3.9)	11,677	(3.3)
Broadband⁶	1,432	7.5	4,210	10.7
FTTH	531	44.5	1,449	49.4
Other Technologies	901	(6.5)	2,761	(2.5)
Pay TV	451	(8.0)	1,388	(3.3)
IPTV	227	26.1	643	36.3
Other Technologies	224	(27.7)	745	(22.7)
Corporate Data and IT	716	12.9	1,990	7.2
Fixed Voice	1,275	(18.8)	4,055	(18.1)
Others	11	(36.5)	34	(1.0)

» 3Q19 MOBILE OPERATING

Thousand	3Q19	Δ% YoY	9M19	Δ% YoY
TOTAL SUBSCRIBERS	73,833	(0.8)	73,833	(0.8)
Postpaid	42,300	7.3	42,300	7.3
M2M	9,479	24.1	9,479	24.1
Prepaid	31,534	(9.9)	31,534	(9.9)
MARKET SHARE	32.3%	0.5 p.p.	32.3%	0.5 p.p.
Postpaid	39.8%	(1.4) p.p.	39.8%	(1.4) p.p.
Prepaid	25.8%	0.5 p.p.	25.8%	0.5 p.p.
ARPU (R\$/month)	29.4	6.4	29.2	4.1
Postpaid (Human)	52.4	2.6	52.3	0.8
M2M	3.0	19.2	2.9	11.7
Prepaid	12.7	10.0	12.4	2.6
MONTHLY CHURN	3.4%	(0.2) p.p.	3.3%	0.1 p.p.
Postpaid (ex-M2M)	1.8%	0.0 p.p.	1.8%	0.1 p.p.
Prepaid	5.4%	(0.2) p.p.	5.2%	0.4 p.p.

» 3Q19 FIXED OPERATING

Thousand	3Q19	Δ% YoY	9M19	Δ% YoY
TOTAL SUBSCRIBERS	19,888	(10.8)	19,888	(10.8)
Fixed Broadband	7,120	(4.7)	7,120	(4.7)
FTTH	2,332	34.0	2,332	34.0
Other Technologies	4,788	(16.5)	4,788	(16.5)
Pay TV	1,383	(13.6)	1,383	(13.6)
IPTV	681	27.0	681	27.0
Other Technologies	702	(34.1)	702	(34.1)
Voice	11,385	(13.8)	11,385	(13.8)
MARKET SHARE Fixed Broadband	22.2%	(2.4) p.p.	22.2%	(2.4) p.p.
Market Share FTTH	26.2%	(8.2) p.p.	26.2%	(8.2) p.p.
MARKET SHARE Pay TV	8.6%	(0.4) p.p.	8.6%	(0.4) p.p.
Market Share IPTV	91.2%	10.5 p.p.	91.2%	10.5 p.p.
MARKET SHARE Voice	32.5%	(1.6) p.p.	32.5%	(1.6) p.p.
ARPU Broadband (R\$/month)	66.3	11.6	64.0	12.8
ARPU Pay TV (R\$/month)	105.7	4.3	103.9	4.2
ARPU Voice (R\$/month)⁵	35.2	(7.7)	35.6	(9.9)

3Q19 IFRS INCOME STATEMENT

Consolidated in R\$ million	3Q19	Δ% YoY	9M19	Δ% YoY
GROSS OPERATING REVENUE	16,606	1.7	49,635	1.3
Gross Operating Mobile Revenue	10,695	4.7	31,987	3.5
Gross Operating Fixed Revenue	5,912	(3.3)	17,647	(2.6)
NET OPERATING REVENUE	11,047	2.6	32,891	1.6
Net Operating Mobile Revenue	7,161	6.6	21,214	4.5
Net Operating Fixed Revenue	3,886	(3.9)	11,677	(3.3)
OPERATING COSTS	(6,506)	8.7	(19,725)	6.1
Personnel	(936)	(0.2)	(2,762)	(6.7)
Costs of Services Rendered	(2,464)	(9.9)	(7,341)	(13.0)
Interconnection	(276)	(13.2)	(832)	(16.2)
Taxes and Contributions	(411)	10.3	(1,225)	0.8
Third-party Services	(1,389)	3.1	(4,208)	4.1
Others	(388)	(44.5)	(1,076)	(50.7)
Cost of Goods Sold	(730)	22.6	(2,236)	33.8
Commercial Expenses	(2,162)	(1.8)	(6,550)	(2.5)
Provision for Bad Debt	(442)	10.0	(1,266)	8.3
Third-party Services	(1,653)	(5.1)	(5,087)	(3.6)
Others	(66)	13.3	(198)	(28.1)
General and Administrative Expenses	(321)	(16.5)	(934)	(18.2)
Other Net Operating Revenue (Expenses)	106	(87.8)	98	(95.8)
EBITDA	4,541	(5.0)	13,167	(4.4)
EBITDA Margin %	41.1%	(3.3) p.p.	40.0%	(2.5) p.p.
DEPRECIATION AND AMORTIZATION	(2,705)	32.9	(7,931)	31.2
Depreciation	(1,940)	41.0	(5,745)	41.0
Amortization of Intangibles	(465)	30.8	(1,283)	20.9
Others Amortizations	(300)	(1.2)	(902)	(0.7)
EBIT	1,836	(33.1)	5,236	(32.3)
FINANCIAL RESULT	(306)	n.a.	(636)	n.a.
GAIN (LOSS) ON INVESTMENTS	(1)	(87.3)	(1)	(85.7)
Taxes	(565)	160.4	(872)	(61.0)
NET INCOME	965	(69.6)	3,727	(49.9)

