

Y 2021 Earnings Call

Company Participants

- Alberto Griselli, Chief Executive Officer
- Camille Faria, Chief Financial Officer
- Pietro Labriola, Chief Executive Officer
- Renato Ciuchini, Vice President, Head of Strategy & Transformation
- Vicente Ferreira, Investor Relations Director

Other Participants

- Bernardo Guttmann, Analyst
- Diego Aragao, Analyst
- Fred Mendes, Analyst
- Leonardo Olmos, Analyst
- Luis Fernando Azevedo, Analyst
- Marcelo Santos, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to TIM SA 2021 Fourth Quarter Results Conference Call. We would like to inform you that this event is being recorded, and all participants will be in listen-only mode during the company's presentation. There will be a replay for this call on the company's website. After TIM SA remarks are completed, there will be a question-and-answer session for participants. At that time, further instructions will be given.

We highlight that statements that may be made regarding the prospects, projections and goals of TIM SA constitute the beliefs and assumptions of the company's board of executive officers. Future considerations are not performance warranties. They involve risks, uncertainties and assumptions as they refer to future events that may or may not occur. Investors should understand that internal and external factors to TIM SA may affect their performance and lead to different results than those planned. (Operator Instructions)

Now, I will turn the conference over to the Mr. Pietro Labriola, CEO of Telecom Italia, for his message of greeting. Afterwards, I will turn the conference over to Mr. Alberto Griselli, CEO of TIM SA and to Ms. Camille Faria, Chief Financial Officer and Investor Relations Officer, to present the main messages for the fourth quarter of 2021, update, and the new guidance. Please, Mr. Pietro, you may proceed.

Pietro Labriola {BIO 19448607 <GO>}

Hi, everyone. I'm back to share a few words with you. First, I want to thank all the team in Brazil. During the years, wonderful years, I served as COO and CEO, I could count on great teams, fully committed and focused on delivering what we were promising internally and externally to our stakeholders. 2021 results were not different. We accomplished all the goals we set ourselves to pursue. You will hear from Alberto Griselli, my friend and the new CEO how our financial and ESG guidance were met in a year still full of uncertainties and the impact from the pandemic.

Although, my circle in Brazil is closed for now, as CEO of the Group, I will continue supporting this strategy and operation in Brazil. I'm convinced we will make TIM the preferred operator in Brazil for all stakeholders, clients, employees and investors. Initiatives like Oi's acquisition, the customer platform partnerships and the revolution in the customer experience give me this certainty. So for now, it's a farewell. I'm leaving you in the capable hands of Alberto and his team. Still I will always remain available to discuss the future of TIM Brasil, a great future. Alberto, now it's up to you. Good luck, and I will miss you, all of you.

Alberto Griselli {BIO 21170674 <GO>}

Thank you, Pietro, for the confidence and support during the past three years. I will lead this company to carry on your legacy and further advance the development of TIM Brasil. Good morning, everyone. Thank you for attending our results conference call. As Pietro just mentioned, this last year was still full of uncertainties and impacts from the COVID pandemic. Also, the macro environment is not helping. On the contrary, inflation, for example, impacts our cost and reduces the available income of our clients.

Despite that, we managed to post strong numbers reaching all our targets. Our strong execution continues to make a difference and led us to post solid results in the fourth quarter and close the year at a healthy speed. Our mobile strategy from volume to value continues to pay off. ARPU grew 6% year-over-year in 2021 with service revenues expanding mid single-digit versus 2020. EBITDA also grew mid single-digit, which helped us expand our operating free cash flow by BRL1 billion and reach more than BRL6 billion in total. In 2021, we launched the Ampli partnership, while maintaining a robust commercial pace with C6. All in all, we close 2021 above our target of BRL100 million for customer platform revenue.

In the fourth quarter, we had two important events. The 5G auction, where the outcome was very favorable to the sector and TIM. And we also had the closing of the deal with IHS. So now, we are getting the company up and running to help us re-accelerate in residential broadband. We are also delivering remarkable evolution in our infrastructure projects. Journey to cloud is proceeding well and is already helping us improve customer experience. And we successfully prepared our network to receive the customers from the deal with Oi. We will have the chance to talk more about the transaction in the second section of our presentation.

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2021 meant remarkable achievement in the ESG arena. We reached 100% of our energy coming from renewable sources and 94% reduction in direct and indirect emissions. We took a leading position in diversity initiatives through the Mulheres Positivas partnership and implementing employability programs for minorities. We were included in the new Diversity Indexes and maintain our position in the B3 Sustainability Index.

Detailing our revenue dynamics. In 2021, we saw positive mobile and fixed service contributions with all significant lines improving. Mobile service revenues grew 4.7% year-over-year, while fixed service was up almost 9%, consolidating our service revenues expansions at 5%. Postpaid, Customer Platform and TIM Live were the elements driving this performance. Postpaid revenues closed 2021 representing almost 60% of our service revenues and growing 5.4% during the year versus 2020. Customer platform totaled nearly BRL120 million, becoming a relevant contributor to growth.

Despite the challenges in the second half of the year, TIM Live continued to support revenue expansion. It rose almost 15% during 2021. Those results once again show that our choice to focus on a value strategy is working well. We have been outperforming our peers in mobile ARPU dynamics for many quarters. Our ARPU reached BRL26.4, following a 6% rise during 2021. At the same time, we reduce voluntary churn in Postpaid, which also helped improve postpaid net additions. It is worth highlighting that we sustain our offer differentiation through innovations and go-to-market changes, while reinforcing our positioning. We are reinforcing our well known and long connection with the music theme, and we are back to sponsoring large events and festivals.

In TIM Live, we were also able to improve ARPU by approximately 4%, while the customer base grew more than 6% year-over-year, with FTTH being the key adoption driver. It is essential to highlight the transition to a new rollout model, renting instead of building. We expect that utilizing specialized network companies will produce an acceleration of coverage. Still under broadband services, we started to experience a more conflicted competition environment since the beginning of the second half. In our case, we are trying to differentiate by launching ultrafast download and upload speeds with new content.

Finally, we were granted the recognition for the best video and video conference experience now being featured in our new commercial ad campaign. We also improved NPS metrics, reduce Anatel's complaints and ranked first in the Satisfaction Ranking from resolutions given to customers' demands at Anatel. Those were the outcomes of a strategy based upon offer differentiation and customer experience.

I just mentioned that customer platform initiatives are proving to be an exciting opportunity. They also differentiate our offers and improve our value proposition to customers. A quick recap of our strategy. The framework is composed of two models of partnership. The strategic partnership, where CAC fees and equity stakes remunerate TIM. And the commercial ones, where we are remunerated monetarily per video views and clicks for advertising campaigns and data intelligence services. Both models leverage TIM Insights and TIM Ads platform to target these suitable classes inside our base, and impact them through channels within their journey as a TIM client.

Under this framework, we are already operating in some verticals with robust results. As mentioned before, with some BRL120 million in revenues in 2021, with contribution for mobile advertising and financial and education services, we earned subscription bonuses equivalent to an equity stake of 4.4% in C6 Bank. We also doubled our enrollment rate for undergrad and open courses sequentially to reach more than 50,000 students total. Our audience for mobile advertising surpassed 27 million people, which give us the ability to engage with them in multiple forums. We continue working to grow this ecosystem of partners. To do so with greater accuracy, we hired a financial advisory to help us finalize the evaluation of the partnerships under development and future opportunities.

Moving to infrastructure, we saw our 4G coverage leadership we confirmed during 2021. We have completed 85% of our target agreed with Anatel to cover all the cities of Brazil. At the same time, we are preparing our network to receive Oi's customers. As a matter of fact, we modernized 1,400 sites and implemented a capacity increase using massive MIMO in 1,600 sites. Our network sharing agreement with Vivo ended the year meeting its goals. We expanded 4G coverage to more than 250 cities, and we are conducting the test for a full single grid in 21 cities. Those tests will be very relevant to the funded feature of the agreement, and if and how we can include 5G in this sort of sharing.

On the IT front, 2021 was pivotal for the journey to cloud transformation. We closed the year with 90 systems running from the cloud. We migrated more than 3,500 servers. This means that about 40% of our processing power is already coming from the cloud, improving operational efficiency and customer experience. Another element of our strategy that keeps helping us become more efficient is the digital transformation process. During 2021, we improved all our digitalization metrics. Recharges in digital channel increased 70 percentage points. Collection unitary cost reduced 12.4%. E-billing penetration increased almost 6 p.p. PIX payments reached 16% of our invoice payments.

Now, I pass the floor to Camille, our CFO, to give more color on our financial results.

Camille Faria {BIO 15380221 <GO>}

Thank you, Alberto, and good morning, everyone. Since we were already discussing efficiency, let's start with cost trends. And here, it is essential to make a disclaimer. You will find in our documents some normalizations. The most relevant one is related to the sale of I-Systems. With the closing of the deal with IHS, we had a positive impact of close to BRL800 million in our EBITDA. So to maintain comparability, we will analyze only normalized figures.

Our OpEx ended 2021 up by 4.8%, significantly below inflation, but materially impacted by the pandemic. If you recall, the only quarter that our costs were above the low-single digit range was the second quarter, exactly when the comparable base was significantly impacted by the pandemic.

It is easier to understand and eliminate those temporary effects by comparing the 2021 OpEx with 2019. Under this comparison, our costs and expenses stood almost flat, showing our capacity to control costs and implement initiatives that helped TIM remain the

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most efficient operator in Brazil. Consequently, our EBITDA reached more than BRL8.7 billion, growing 4.4% year-over-year and maintaining EBITDA margin above 48%. In the fourth quarter, we achieved the highest margin in our history, 5.1%. Net income also rose solidly, up close to 20% year-over-year.

Our CapEx ended 2021 right below our target at BRL4.38 billion. This number, of course, does not consider the spectrum acquired during the 5G auction. We booked another BRL3.6 billion in CapEx from the licenses and obligations related to our acquired frequencies. This BRL3.6 billion was fully booked for accounting purposes, but only a very small amount was disbursed in 2021. Most of the remaining cash-out will happen in 2022 and 2023.

In this context, operating free cash flow for the year stood at a record high of BRL6.1 billion, which grew more than 30% and drove our net debt down by more than 30% and a cash position of BRL9.8 billion. In 2021, we almost completed our financing plan for the extraordinary payments that we will have in 2022. We raised BRL3 billion in new debt, and we received BRL1.1 billion for the sale of 51% of the shares in I-Systems.

Now, I hand the call back to Alberto to complete the discussion related to the 2021 results and move forward with an update on the acquisition of Oi mobile assets.

Alberto Griselli {BIO 21170674 <GO>}

Thank you, Camille. As I mentioned in the beginning, despite the challenges imposed by the external environment, we were able to deliver all our targets. Service revenues grew at 5%; EBITDA growth at 4.4%; and margin at 48.4%; CapEx at approximately BRL4.4 billion; and EBITDA minus CapEx and revenues at 24%. Those results were accomplished, while we improve our customer experience, enhance TIM brand recognition and positioning, brought innovation to our clients and open new avenues for growth. I'm proud of what we delivered, and it is an excellent manner to thank Pietro for all the support and guidance he gave us during his years as CEO of TIM Brasil. I'm sure he will continue to support us in the new position of Group CEO.

Now let's move to the second section of today's presentation. Our update starts with a quick recap of the approval process with the regulators. Both Anatel and CADE approved the transaction with certain conditions. Most of them were behavioral remedies with one structural condition, the buyers will have to offer 50% of the acquired sites to the market. In our evaluation, the regulators and the parties involved managed to build a scenario, where the remedies guarantee access to infrastructure, consumers will have the freedom to choose from three strong operators and rivalry among them will be maintained. Still, buyers and sellers will create significant value from the transaction. However, to generate value, first, we need to integrate properly and promptly. This is no doubt that the integration will be complex, but we have been planning this for a while, so we have a solid plan, and we are ready.

We expect the closing to occur before May and 30 days after, we assume to be able to start the network migration. This process should take approximately three months to

bring all Oi customers to our network. Full spectrum migration should take longer, but we expect to start using the acquired spectrum sooner rather than later. IT system migration should take -- should start in the second quarter after the closing, of course. We will migrate customers in waves to have a smooth process and minimal disruption to the clients. The entire process will be long, ending most likely close to 12-month mark from the closing.

I know the discussion around synergies and value creation from this deal has been eagerly expected by the market, but there is still much information to be confirmed. And we feel more comfortable sharing our estimates, once we have the closing and all the financial figures from the SPE and a better understanding of the asset base we are receiving. Nevertheless, we can share how we imagine things we look over time. We estimate that the full effect of the transaction will only be perceived in 2024. Since the closing will occur in the second quarter, there will be a delay in all the expected effects for 2022. Revenues and OpEx normalization will be pushed into 2023. Between 2023 and 2024, the impact of the delay is significantly smaller, but there is some still. In 2024, we expect migrated clients to contribute with revenues that would account for at least 50% of our net services revenues, and more than 20% of the total EBITDA. Migrated clients will arrive with a higher margin, but since we have the PSA and some other integration costs, the endpoint of this margin would be only achieved in 2024.

We are arriving at the end of our presentation, so we need to start putting together all those blocks we composed, basis of our new strategic plan and consequentially our guidance. We have very robust operation and the 2021 results are clear evidence of the strength and health of the company. We are flagging on top of this machine a set of opportunities, such as 5G rollout, the customer platform development and the approach to FTTH with the help of I-Systems and infrastructure projects. But those are evolution to our business model, they are not transformational. The acquisition of Oi's mobile assets will transform this company for the better. It will work as an accelerator to our plan to become the preferred mobile player in Brazil.

Additionally, all those moving pieces will impact our numbers in different ways and timeframes. So to help you understand and bridge today's reality to what TIM will look like in the future, we present two simple models showing what will happen in 2022. From those two charts, we see the positive impact coming from Oi's assets. Also, I-Systems promised positive impact at free cash flow level is confirmed. And in the first year, 5G is taking a toll as expected for any new technology that we start to deploy.

Based on this explanation, we present the new guidance that is not totally comparable with the previous one. Last year, we expected Oi deal to close in December, while 5G auction and I-Systems transactions weren't included. But if we were to exclude those elements on a like-for-like comparison, all the metrics will be on track. To conclude, we expect our service revenues and EBITDA to grow double-digit in the short-term and long-term; CapEx will remain below the BRL5 billion range in the coming years, taking CapEx on revenues ratio below 20%; and EBITDA minus CapEx on revenues to go over 29% in 2024. The future looks bright with many opportunities for us to explore.

We already talked too much. Let's open the floor for questions. Please, operator.

Questions And Answers

Operator

Thank you. Now, we will begin the Q&A session. First, we will take questions from analysts, followed by general public, both in English. (Operator Instructions) Our first question comes from Bernardo Guttmann with XP Investments.

Q - Bernardo Guttmann {BIO 22426541 <GO>}

Hi. Good morning, everyone. Thanks for taking my question. I have two questions here. The first one about the deal with Oi. I do understand that you guys prefer to wait for the closing to give us the NPV of synergies, but I was wondering if it's possible to have some color about the goodwill that this transaction may generate? And my second question is related to that network sharing with Vivo. How is the project evolving and what we can expect in terms of OpEx and CapEx avoidance for this year? Thanks.

A - Alberto Griselli {BIO 21170674 <GO>}

Bernardo, let me start with the first one, which is about the network sharing. There is some echo here. Let me just make sure that is fixed. Okay. So, Bernardo, back to the network sharing agreement. As we just said, the project is going well. The expansion of coverage was quite successful and we are moving now into the second phase of the project, whereby we're looking at synergies. In the second phase, we ran a pilot with Vivo, that's been successful. It's a limited number of cities at this stage. And there is a plan to reach at regime something about 1,600 cities. So the project is up and running. I would say that the -- we are committed to it. But this year, we also have a number of competing activities on the network side. Basically, we need to integrate the Oi assets, and -- which is a huge effort on our side. And we need to launch 5G in June, July, and so we are deploying massively on our network side. So it's up and running. It's -- it will contribute a significant NPV on the long-term. And we are now deciding with Vivo, the pace of it in order to accommodate for the other activities that are quite important in our investment plan, 5G and the Oi integration.

On the second one on the deal, the first point, we understand that you are eager to know the NPV of the synergies. And we are more on the closure side, because the deal is going to be close soon, but it's not closed. I will hand it over to Camille to discuss a bit about the goodwill.

A - Camille Faria {BIO 15380221 <GO>}

Thank you. Okay. So in terms of the good -- the benefit coming from the goodwill, yes, we expect to have tax benefits coming from goodwill. The exact number we'll only know once we have the final financials of the SP that we are buying, that this is why we want to wait for the closing to release these numbers to the market. But it is -- we expect it to be a significant number, and in the neighborhood of few hundred million reais in net present value. But the more precise number we will release once we have the financials from the SP we are acquiring.

Q - Bernardo Guttmann {BIO 22426541 <GO>}

Okay. Thank you, Camille. Thanks, Alberto.

Operator

Our next question comes from Leonardo Olmos with UBS.

Q - Leonardo Olmos {BIO 21197412 <GO>}

Hello, everyone. Good morning. My questions will be focused on mobile strategy. So the first one is regarding the best there for Q, we noticed that net adds were over 70% concentrated in the fourth quarter. Can you discuss if this is a shift on your strategy, and if you will be fighting for more market share in 2022? Thank you.

A - Alberto Griselli {BIO 21170674 <GO>}

Leonardo, hi. The first part, there is no shift in the strategy. So our strategy is from volume to value, and we are pursuing it on different aspects. I think that when you look at our past performance, you see that this strategy has been delivering significantly in terms of ARPU growth. And we've got a number of quarters where we managed to grow our ARPU in both segments consistently. But this is just one piece of the equation. When you look at the other piece of the equation, there is another element, which is quite important, which is the churn of our customer base. So we've been working extensively to improve the levels of services and our commercial policies. And so, we -- in the fourth quarter, we managed to reduce substantially the voluntary churn of our customer base. As a matter of fact, we are currently at the lowest level of TIM Brasil ever. So when you combine the top line growth, which translates into the KPI, which is the ARPU growth, and when we factor in the reduction of churn, this delivers the increased net additions that we are seeing on the fourth quarter. So the strategy is confirmed. It's the same, from volume to value.

We are working on both sides of the equation, basically monetizing our customer base and, therefore, ARPU increase on one side, and working on churn reduction, and thus deliver the net additions. There are some specific aspects related to the fourth quarter, which are related to the component of consumers versus business gross additions. But I can confirm that when we look at the January and February performance, we are moving at a stable pace. So we -- this trend that you're seeing is confirmed.

Q - Leonardo Olmos {BIO 21197412 <GO>}

Great, thank you. And just a quick follow-up about 2022. It's definitely going to be an interesting year. You're going to have the incorporation of Oi mobile, the interest of regional players with 5G. Considering all that, what would be -- if this is a fair question, what would be your growth in 2022, if we work to disregard Oi mobile's integration?

A - Alberto Griselli {BIO 21170674 <GO>}

This is an interesting question, because at the end of the day, we already don't look at it this way, because we look at the overall number with Oi inside. Oi is confirmed. It's happening. We've got a double-digit growth target on our MBO. And so we need to get

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there, whatever the mix of the component, Oi versus and Oi is. Now, to give you a bit more color in terms of -- and so we look at the budget as an overall figure, so without this distinction in terms of what is coming from what. When we look at the first quarter, which is definitely without Oi, what we see is that we've got a good pace. So we entered 2022 at a good pace. And on the revenue side, and -- this reflects the combination of the balance growth of the customer base and ARPU growth and an improvement in prepaid. If you look at prepaid in the fourth quarter, you see that it's the only line of our revenues that is going -- is not growing, actually it's decreasing. When we go into a bit more detail of what happened, you will see -- well, you won't see, but I would tell you that there is November, which is again impacted by a specific campaign that we did, where we tried to increase the number of re-chargers. But by doing so, we cannibalized the recharges. So all in all, that was hitting our result in November. But December, January and February, up to now, we see a positive performance of prepaid. So all in all, we see that we are entering at a good pace in 2022.

Q - Leonardo Olmos {BIO 21197412 <GO>}

That's great to hear. Thank you very much. And we are all looking forward for nice updates. Thank you.

Operator

The next question comes from Diego Aragao with Goldman Sachs.

Q - Diego Aragao {BIO 17889908 <GO>}

Hi. Good morning, everyone. Thanks for taking my question. First, just wanted to congratulate Alberto for your promotion to CEO. Glad to see you in there, and I'm really excited and looking forward to keep working with you, Alberto. So look, I know that there are like several data points on the Oi DR transaction. But I want to explore a little bit more these. So maybe just to start, can you detail to us what are the next steps for the transaction to be concluded? And secondly, if we would think about the NPV of synergies you are expecting, can you just help us to quantify the synergies maybe providing a range and then also provide a bridge showing the key line items that would compose this NPV of synergies that you are expecting? Thank you.

A - Alberto Griselli {BIO 21170674 <GO>}

Well, let me do, Diego, a brief introduction, and I will hand over to Camille for additional details. In terms of next step, it's very simple. The Oi just created through SPE that its buyer will receive. And now we are auditing the correct functioning of these entities for us to be sure that we get what we are expecting to get. When you look at the synergies, unfortunately, again that's something that we are eager to share with you, but not at this stage. Generally, we define that as a more general statement in two main sources of revenues: the technical side and the commercial side. And technical side is related to the increase of spectrum that translates into a lower OpEx, CapEx. And then on the commercial side, we basically factor in the -- a more rational competitive environment, and the positive effects on our customer base from increased service quality. And then there is the third one actually that Camille just mentioned, which is the goodwill. So when

you look at all this, a big chunk comes from the technical side. But I will hand it over to Camille to be more precise on these figures, or as far as we can go.

Q - Diego Aragao {BIO 17889908 <GO>}

Okay. Thank you.

A - Camille Faria {BIO 15380221 <GO>}

Thank you, Alberto. I actually don't have much more to add. So as Alberto said, in terms of what's still necessary for us to proceed with closings, it's mainly internal bureaucratic steps. Nothing that really depends on third parties, and these steps are mainly related to us, I mean, the special purpose company being created and us being able to audit that we're actually paying for what we thought we were buying. So it's creating the SPE, having financials, us being able to look at those financials and then being comfortable to go ahead with closing. So internal, no worries there. It's just the matter of time.

In terms of the synergies, again, we would love to have been able to share the value of the synergies with you in this call, but we just didn't have -- we just didn't feel that we had enough information to be precise. So we prefer to wait for again the SPs to be fully created, to have their own financials, and us having the final numbers so that we can calculate the synergies and share them with the market. And as Alberto mentioned, they become mainly from three areas. Most of the synergies in the technical network, synergies in the commercial, and lastly the goodwill, which in the previous question I already mentioned, that is in the neighborhood of a few hundred million reais, so quite significant. That's the goodwill, of course, standalone. The other ones are much larger. And we will share them with the market in a proper time.

Q - Diego Aragao {BIO 17889908 <GO>}

Maybe just a quick follow up here, Camille, thank you, and thanks for that. I guess, I would just would like some numbers as a percentage of the total NPV, how much the technical side would represent? I mean, it's like 60%, 70% or less than 50%. I just want to get a sense, because for this one, in particular, we can make the math, right, and then we can work like some scenarios to calculate like the commercial, which should impact your business much more in the mid-term to long-term and the goodwill, right.

A - Camille Faria {BIO 15380221 <GO>}

Yeah, we can share that. We expect the first portion of the synergies, technical network to represent roughly two-thirds of 70% of the total NPV of the synergies. Please keep in mind that as you know, we are the player getting, let's say, most of the spectrum, most of the network, most of the clients, so it's understandable that, on the technical side, the synergies are strong for us.

Q - Diego Aragao {BIO 17889908 <GO>}

That's amazing. Thank you, Camille.

Operator

The next question comes from Fred Mendes with Bank of America.

Q - Fred Mendes {BIO 22302086 <GO>}

Hello. Good morning, everyone. Thanks for the call. I had two questions as well. The first one is a follow-up from what Leo asked. In terms of the strategy, I mean, your ARPU is already relatively high to the sector average at BRL26. Obviously, ARPU has a lot of limitations, so it's hard to look at it. But it is the info that we have. So basically, obviously, now we saw an improvement in net adds. But only look at adds when this upselling in our base, how much more you think you can grow, considering that the increase over the last years has been significant? This will be my first one.

And then my second one, back to Oi, and I understand all of the limitations, but just when you mentioned here that in the presentation that the margin of transferred clients, it looks like something like 55% to 70% 2024. Just wondering if you're assuming any potential ICMS with very strong gains here or that's purely operational? Thank you very much.

A - Alberto Griselli {BIO 21170674 <GO>}

So, Fred, let me take the ARPU versus base question. We -- when you look at -- so basically, you've got the net adds, the ARPU, which is growing and that we expect it to further grow. And I will tell you the areas that we are working to make this happen, both on postpaid and some prepaid, we don't look at ARPU, we look at spending, but we are working on that as well. And for the net additions, this is the combination of healthy sales. We are pretty stable now and churn reduction. So when you look at the ARPU, we basically work on a number of -- on postpaid primarily on a number of different levers for it to grow. The annual adjustment that we are going to implement this year like we did last year, according to a more for more strategy. Last year, I don't know if you remember, we did the price adjustment basically in March-April. That was before the rise of inflation or the quicker rise of inflation, and that we are going to repeat this in March-April this year. It's going to start in March, but the full impact is going to be in April. And this is one way we look at this.

Then the other way, we are working is -- and we are very satisfied with the results, it's the migration that is happening. It's that we work our customer base. We look at the usage profile. We migrate customers from one offer to another one. And this provides an extra benefit to the customer, and extra ARPU to us. And so this is the second lever. It's working well. It's producing results. So we are monetizing our customer base, so price adjustment, there is the migration. And then, of course, there is the input that is coming from the data platform strategy, which is wider in scope, but creates some extra revenues from us by monetizing our customer base.

When you look at prepaid, it's a bit more tricky, because it's more difficult to work the prepaid segment to increase ARPU. Nonetheless, we just implemented at a review of our face value. So we introduced -- the lowest face value in Brazil is BRL10. So, we just introduced a BRL12 face value last week, and we're going to take the BRL10 out in a few weeks. And so, we expect that this, we're going to drive a bit of the ARPU spending as well. And we've got another set of marketing and commercial offer measures that we are implementing in the next weeks to increase the usage of the service of prepaid, and

therefore, the spending. Not the ARPU, because the ARPU is a bit tricky in terms of in that segment. So this is for the ARPU side. I will hand over to Camille for the EBITDA or EBITDA composition, if you don't have any further questions on the ARPU dynamics.

A - Camille Faria {BIO 15380221 <GO>}

So moving onto Oi -- sorry.

Q - Fred Mendes {BIO 22302086 <GO>}

No, super clear, Alberto. Thank you. Sorry, Camille.

A - Camille Faria {BIO 15380221 <GO>}

So with respect to the Oi marginal EBITDA contribution, most of the growth, or I would say almost all the growth that you see between 2022 and 2024 is related to the temporary service agreement that we will have with Oi post-closing. So before when we were expecting closing to happen in 2021, the full impact of the TSA was being reflected in 2022, so that in 2023, we would no longer have that OpEx with Oi. Now that we are expecting closing in the second quarter of this year, we still have a piece of that expense in 2023, so that 2023 EBITDA contribution from Oi is not, I would say, normalized yet. So 2024 is really the first year in which you'll see the numbers fully normalize. So that's where you will see the growth between 2022 and 2024. And with respect to ICMS, no, our 2024 Oi numbers do not take into account any benefit from a reduction in ICMS. If we are able to capture anything from the ICMS reduction, that's an upside to the case that you see in our presentation.

Q - Fred Mendes {BIO 22302086 <GO>}

Perfect, very clear, Alberto, Camille. If I just may follow up about the digital partnerships, it looks like you've acquired the two main ones, especially on the financial front and also the advertising, they're flat (inaudible) and we look at the case (inaudible) per stage (inaudible) a relevant contribution here. So just what are the next steps here? Have you reached an upper ceiling for these two main (inaudible), basically, what can we expect here for the next quarters? Thank you.

A - Alberto Griselli {BIO 21170674 <GO>}

Just a brief introduction and I will hand it over to Renato. Basically, C6 is up and running and is going well commercially. Of course, there is a limit to we can grow, because we are addressing a big chunk of our customer base. We launched a new one, which is Ampli. It takes some time to get speed, and so we are in the ramp-up phase. And so to maintain and grow the revenues, we need to close more partnership, and this is within the plan.

A - Renato Ciuchini

Hi, Fred. Thanks for the question. I think your assessment is pretty right. I think on the financial services, we have grown a lot our number over the last 12 months. And now we have reached a number, which is kind of flat quarter-over-quarter. And on the education side, we have launched the partnership in July next -- last year. It's still in the early stages, I would say. It's already significant numbers in the education market. We have doubled the

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numbers of our recruiting in our TIM channel, so we are learning very fast here. And we expect to see some good numbers in this partnership in the second half of this year. And as Alberto said, we have a pipeline of new partnerships. We have hired Lazard [ph] to help us. We believe there is a good opportunity in digital health. It is a market that was like fintech five years ago, so there is a potential very big overlap with our base, which is relevant. And we are working with Lazard [ph] now to decide among the very strong proposals that we have, which is a part that we are going to choose. And we are on track to launch the third partnership on the content area in the second quarter of this year.

Q - Fred Mendes {BIO 22302086 <GO>}

Very clear, Renato. Thank you.

Operator

The next question comes from Marcelo Santos with JP Morgan.

Q - Marcelo Santos {BIO 20444938 <GO>}

Hi, good morning. Thank you very much for taking my questions. Could you please discuss a bit on the guidance that you provided? Could you give us an idea of how much would be the organic growth figures that you will be planning like without the Oi acquisition? Just have some idea would be interesting. The second, just exploring a bit more the Ampli partnership, you already got like 50,000 students, which is pretty sizable number for, I think, for Vasta -- sorry for Cogna. If you look there, they have -- that's almost 10% of their student base. Does this indicate the revenues should also plateau if you keep at this level, or should revenues grow faster than students? Just wanted to understand better the mechanics here and the business model of the Ampli partnership? Thank you very much.

A - Alberto Griselli {BIO 21170674 <GO>}

Hi, Marcelo. Let me get the first one on the guidance. As I was mentioning before, basically, we are already working with an integrated budget. All this -- some of the parts that we mentioned on the presentation are all integrated in our budget. So this is our target. So we do not work anymore with the different components, what contributes what. We sum it up and that is what we need to deliver. If you look at your components, we are going to integrate the revenues that we will know throughout the auditing process for the precise value. That's one of the reasons we are not presenting the synergies today. And the EBITDA component of these revenues is what Camille just presented, answered in the previous question. So the fact that we are entering the first quarter at a healthy speed, it's the only indication that we have. You will see in the next call in terms of organic speed. After that data, we're going to look at the number as a single target for the company to achieve.

Q - Marcelo Santos {BIO 20444938 <GO>}

Perfect. Thank you.

A - Renato Ciuchini

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And on Ampli, so regarding Ampli, so the 50,000 are the number of TIM customers that have been registered in the Ampli platform for both, the graduation as well as the open courses. So what's our strategy here, just to give a little bit of more color on this. We offer with Ampli open courses for free to our customer base. They come, they join the platform, and then we do the up-selling to the graduation. So the 50,000 is already a link that we have inside of the Ampli platform that allow us to do that migration to graduation. So the whole strategy that we have is adding benefit our base, offering something that generates value to our base and from there, creating a propensity lake where we can migrate them for a paid service and get remunerated, compensated for that. So we are doing what we call the top of the funnel. We are building this base. We are building this lake, and then we are working actively to migrate, to upsell them to the graduation where the compensation remuneration is for us. If you have any questions, let me know, regarding the strategy in the numbers here.

Q - Marcelo Santos {BIO 20444938 <GO>}

No. Perfect. This was very clear. Thank you.

Operator

The next question comes from Luis Fernando Azevedo with Banco Safra.

Q - Luis Fernando Azevedo {BIO 6695858 <GO>}

Hi, guys. Good morning, everyone. I have a quick question on FISTEL. Is there any idea when you paid the FISTEL portion that was deferred? And regarding Oi, will you assume part of these FISTEL obligations, or if you adjust in the price of the acquisition? That's the first question. Thank you.

A - Camille Faria {BIO 15380221 <GO>}

So with respect to FISTEL, of course, we were not paying FISTEL, because there is an injunction in place. But we are -- we have our balance sheet ready to pay, whenever we need to do so in our budget. Of course, we always count with the scenario that we will have to pay, because we have to have our balance sheet and our cash position ready to -- for these obligations. We will follow what will happen with the case, and proceed with the with whatever we have to do. But again we have our cash position here readied for obligations, whenever they become due.

With respect to Oi, I think there are two separate scenarios and I ask here my colleagues to correct me if I'm wrong. But there is a FISTEL over the net adds and there is FISTEL over the average base. And it really depends on when they become due, right? So everything that's pre-closing, then it's an Oi obligation. Everything that is post-closing, it's our obligation. So if it's with respect to past net adds, then it's an Oi obligation, independently on when they become due from a cash perspective. If it's post-closing related to the average base, then it's the buyer's obligation. As any usual M&A, it depends on the generating factor for that expense.

Q - Luis Fernando Azevedo {BIO 6695858 <GO>}

Thank you, Camille. And the second question that I have is regarding the partnerships. What would be the revenue contributions from these partnerships that you expect in 2024 in terms of percentage of revenues?

A - Alberto Griselli {BIO 21170674 <GO>}

Hi. We actually don't disclose that information. Remembering, one thing which is very important here is that part of the compensation comes into revenue, and part of that comes in equity. And the equity value actually is the most significant one. So when we look at the partnerships here and decide the new ones, we look at three factors. We look at the offer they make for base to make sure that generates value and add values to our base, the value that is generated through the revenues, and the value that we generate to equity, which is very much based on the likelihood of them becoming successful, becoming a unicorn. So, we are targeting not only the revenue side, but also the equity side, which, in our view, has a bigger upside than just the revenue.

Q - Luis Fernando Azevedo {BIO 6695858 <GO>}

Okay, thank you very much.

Operator

(Operators Instructions) Without any more questions from analysts, we will now start the public Q&A session from the webcast platform. And the questions will be read. Please, Mr. Vicente, you may proceed.

A - Vicente Ferreira {BIO 18854359 <GO>}

Thank you, Paul. So the first question comes from HSBC, Fernie Kanumaro [ph]. What is the impact of I-Systems de-consolidation on EBITDA in 4Q '21? And in 2023-2024, what would be the TIM's consolidated margins look like versus our full-year '21 considering Oi deal, I-Systems de-consolidation in the 5G costs? I think this question to Camille. So Camille, please go ahead.

A - Camille Faria {BIO 15380221 <GO>}

Thank you, Vicente. So with respect to the first question, there are mainly two impacts in our EBITDA. There are mainly three impacts in our financials. Two of them affect EBITDA. So similarly to the Oi transaction in which I mentioned that we will have a temporary service agreement, in the I-Systems transaction, we also have a temporary service agreement, but in that case, we are the service providers, so there is just a very small revenue coming from the service agreement, mainly administrative and other back-office services that we are rendering on a temporary basis, but again, not relevant. The more relevant -- the most relevant impact is, of course, the OpEx that we have with I-Systems and that impacted our 4Q financials in one month and a half, since closing happened in mid-November.

With respect to -- and then there is, of course, the last impact, which is the CapEx, but that does not impact our EBITDA. With respect to the 2023-2024 on TIM consolidated margins, again, as Alberto mentioned before, when we look at 2023 and 2024, we really

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project this company as -- without the effects in it, I mean, the Oi deal, I-Systems, 5G, it's all part of our business. So it's three -- I mean, when we have 5G core, sometimes that also brings us some savings that we would otherwise -- of OpEx and CapEx, that we would otherwise have if we didn't have 5G. So it's hard to -- it's really hard to say what's the standalone I-Systems, 5G impact on 2023 and 2024. We really look at this new perimeter that we will have with Oi, with I-Systems and with 5G insides.

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A - Vicente Ferreira {BIO 18854359 <GO>}

The next question comes from New Street, Eduardo Gomes. What is the budget for CapEx in the fiber JV, and how much CapEx did you take out of the budget to reflect the consolidation of these assets?

A - Camille Faria {BIO 15380221 <GO>}

So we can't really disclose the budget for the fiber JV. We are now a minority shareholder and the controlling shareholder of that company, it's a listed company as well. So I mean, we can't really give out that number. What I can tell you that we have roughly BRL400 million of CapEx savings coming from -- or of CapEx reduction in a non-I-Systems basis by having done that transaction in 2022. So we reduced our CapEx by roughly BRL400 million because of the I-systems de-consolidation.

A - Alberto Griselli {BIO 21170674 <GO>}

That -- to this respect, we include this OpEx cost, that Camille just mentioned, and we take out a larger chunk of CapEx with a positive impact on operating free cash flow and revenues, of course, because of this deal.

Operator

Ladies and gentlemen, without any more questions, I'm returning to Mr. Alberto Griselli for his final remarks. Please, Mr. Alberto, you may proceed.

A - Alberto Griselli {BIO 21170674 <GO>}

All, thank you for your participation today. I thank you, the great team that is here with me to address all your questions. And I look forward to meeting you again in the one-to-one sections and the upcoming events like the Telecom Day and next earning call. Goodbye to everybody.

Operator

That would conclude the fourth quarter of 2021 conference call of TIM SA. For further information and details of the company, please access our website tim.com.br/ir. You may disconnect your line from now on. Thank you once again and have a nice day.

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