

Y 2020 Earnings Call

Company Participants

- Christian Mauad Gebara, Chief Executive Officer & Director
- David Melcon Sanchez-Friera, Chief Financial & Investor Relations Officer
- Luis Carlos Da Costa Plaster, Investor Relations Director

Other Participants

- Alejandro Gallostra
- Frederico Mendes
- Leandro Olmos
- Marcelo Santos
- Maria Tereza Azevedo
- Soomit Datta
- Susana Salaru

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Telefonica Brasil Fourth quarter of 2020 and 2020 Earnings Conference Call. Today with us representing the management of Telefonica Brasil, we have Mr.Christian Gebara, CEO of the company; Mr.David Melcon, CFO and Investor Relations Officer; and Mr.Luis Plaster, IR Director. We also have a simultaneous webcast with the slide presentation on the Internet, that can be accessed at the website www.telefonica.com.br/ir. There will be a replay facility for this call on the website. After the company's remarks are over, there will be a question-and-answer section. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements that are based on the company's management beliefs and assumptions and on information currently available. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the company's future results and could cause results to differ materially from those expressed in such forward-looking statements.

Now I would turn the conference over to Mr.Luis Plaster, Investor Relations Director of Telefonica Brasil. Mr.Plaster, you may begin your conference.

Luis Carlos Da Costa Plaster {BIO 19893310 <GO>}

Thank you. Good morning, and welcome to Telefonica Brasil's conference call to discuss 2020 fourth quarter and full-year results. The call will be divided as follows; first, our CEO, Christian Gebara will give you an overview of our operational and financial performance, then our CFO, David Melcon will comment on the acquisition of Oi's mobile assets, our cost and CapEx management and our shareholder remuneration for 2020.

To conclude, Christian will comment on our ESG initiatives and then move to the Q&A session. Now I hand it over to Chris.

Christian Mauad Gebara {BIO 20398802 <GO>}

Thank you, Plaster. Good morning, everyone, and thank you for attending our earning calls. I'd like to start by giving an overview of 2020. The pandemic has accelerated Brazil's digital transformation, which confirm the sincerity of our services. During this challenging year, Vivo delivered a solid set of results driven by the increased demand for our high quality and reliable connectivity. Our purpose of Digitalizing to Bring Closer has never been so appropriate.

We ended the year with 95 million access. In mobile, we added 4 million customers ending 2020 with Vivo's market share at historic heights of 33.6%. Our fiber deployment continue at full speed reaching 15.7 million home passed and an increase of 4.7 million HPs, which is more than double what we did in 2019. FTTH revenues increased by 52.9% year-over-year in the fourth quarter.

In terms of profitability and despite the headwinds of the temporary confinement measures, our resilient EBITDA totaled BRL17.8 billion. The EBITDA margin increased 0.2 percentage points year-over-year, reaching 41.3% due to the performance of a growing business and effective cost management that I feel we'll elaborate later in the presentation. We are also able to deliver our highest ever level of free cash flow BRL9.6 billion, growing 12.6% year-over-year. All these factors allowed us to propose a shareholder remuneration of BRL5.4 billion for the year with a payout of 113.6% and a dividend yield of 7%, which is more than 3 times higher than the local interest rate.

Moving to Slide 4, you can see that the recovery of revenues of key segment was consistent throughout 2020. Postpaid revenues grew 4.9% quarter-over-quarter due to the acceleration of net additions and continued execution of our more-for-more strategy. Prepaid also continued to outperform with revenues increasing 4.3% quarter-over-quarter driven by a robust level of net additions and recurrency of top-ups. FTTH revenues rose 8.2% quarter-over-quarter supported by the constant growth of the customer base and migration to higher speeds. Lastly, handset sales continue to recover, growing 14% when compared to the previous quarter. This performance was benefited by improved commercial activity and the success of our end-of-the-year campaigns like Black Friday.

On Slide 5, we saw the transformation of Vivo's revenue profile, which validates our positive outlook for the future. We divided our total revenues into two categories, core

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and non-core businesses. Our core businesses are based on high speed connectivity both fixed and mobile, which is a key enabler for digital services. The results that Vivo is increasing its relevance in today's cutting edge technologies, like fiber and it's in the best position to explore the full potential of customers' digital lives. Vivo's core businesses included mobile, handsets, FTTx, IPTV, digital services and data and ICT. These segments represent 88% of our total revenues and grew 3.2% year-over-year mainly due to the positive results for FTTH and consistent performance in mobile.

The non-core businesses, which represent 12% of revenues and dropped 26.4% year-over-year are made up of mature legacy technologies that we have strategically decided to deprioritize. The fixed-to-mobile substitution and the voice-to-data migrations are consolidated realities with no going back. We no longer foster the commercialization of ADSL, which is an (inaudible) today technology. And we saw actively selling DTH back in mid-2019. As a result and from now on we'll be focusing our presentations on the core business to better convey the company that lives today and the future that we foresee.

On Slide 6, you can see that the total mobile revenues increased 1.6% year-over-year, despite the impact of the pandemic on handset sales. Prepaid revenues grew 7.3% driven by an impressive volume of net additions and continued effort related to customer base management. The postpaid segment which accounts for 57% of access and 80% of mobile services revenues was up 0.9% year-over-year and showed ARPU improvement. We continue to execute our more-for-more strategy and our combining data with a complete portfolio of co-branded digital services. These actions are paying off and we are optimistic going forward.

Turning to Slide 7. We also again reaffirmed our mobile leadership and people's market share remains at historic high reaching 33.6% in December of 2020. Postpaid churn saw a reduction of 0.53 percentage points year-over-year and stands at the lowest level in five years. On the bottom left hand side of the slide, we will show the breakdown of postpaid additions and how they have been improving. In the fourth quarter 2020, we had 638,000 net adds. Prepaid also had another strong quarter of net additions, 905,000 which indicates how quality connectivity is increasingly important across all segments.

On Slide 8, we will show the performance of our core fixed business that grew 9.1% year-over-year. The data and ICT line decreased 4.2% due to many companies postponed investments during the pandemic, but we are convinced that Vivo's revamped B2B portfolio put us in a privileged position to capture this opportunity as soon as the economy picks up. FTTx revenues were up to 13.8% driven by the relevance of FTTH that represents 73% of this revenues. FTTH is our main growth catalyst delivering an impressive 52.9% revenue increase year-over-year and a compound annual growth of 45% in the recent past. As we expand our FTTH footprint, IPTV Access and revenues also grow. During the last two years, IPTV revenues posted a compound annual growth rate of 25% confirming the appeal of our high-speed broadband and content platform vessel.

Moving to Slide 9. You can see the ramp up of our fiber access and the constantly improving quality of our customer base. Our fiber products continued to attract more customers, which resulted in a 36% increase of FTTH access year-over-year. We also show

a substantial increase in FTTH ARPU 13% year-over-year mainly related to the demand for high speeds.

Moving to the right hand side of the slide, we present acceleration of our FTTH net adds, that totaled \$248,000 in the fourth quarter of 2020, 1.7 times higher than the previous year. I would also like to highlight the high value profile of last quarter's FTTH gross adds. More than 35% were convergent customers. Approximately 30% were on speeds of 300 megabits, approximately 20% were sold together with IPTV. And more than 25% were bundled with OTTs like Netflix and Disney Plus.

On Slide 10, we show how our fiber deployment continues accelerating. As previously mentioned, we added 2020 with 15.7 million home passed, an increase of BRL4.7 million year-over-year. By year end, our fiber footprint covered 266 cities reinforcing our commitment to offering a best-in-class experience across Brazil. New cities launched during the last few years have already achieved expected penetration rate, confirming the accuracy of our strategic fiber deployment plan. Vivo has the largest FTTH footprint in Latin America, which is equivalent to the sum of home passed in the U.K., Germany, Netherlands, and Australia. We also lead in terms of homes connected with 20.3% market share in FTTH more than 6 percentage points ahead of the second player. But we still see that there is room for further fiber growth in Brazil and we plan to reach at least 24 million home passed by the end of 2024.

One of the ways that we'll be doing business this is by launching an independent neutral fiber network. The initiative is progressing well. We have entered an advanced phase of negotiations together with Telefonica Infra and a major international investor and expect the signing in the near future. Vivo will be the anchor tenant carving out 1.6 million brownfield home passed and the target is to reach at least 5.5 million home passed with FTTH in four years. We'll keep you updated as soon as there are further developments.

Moving to Slide 11. We would like to share some KPI that illustrate people's initial success at expanding its portfolio beyond traditional telco services. One of our key initiatives is Vivo Money, our 100% digital personal loan platform. Vivo Money is in its early stages, but since launch in October, we have seen positive results. New contracts per month increased 2.5 times and monthly credit origination grew 2.4 times in just two months.

Vivo Money stepped up on the only for simple and quick ones, but also for its focus on high quality mobile customers with a digital profile. We're seeing that Vivo Money is attracting customers that demonstrate higher adoption of our Meu Vivo chat. Another process in development in the fourth quarter was our digital marketplace loja.vivo.com.br launched in July 2020. We had an increase of 6.7 times its gross merchandise value quarter-over-quarter. Loja Vivo is key to our strategy of becoming a one-stop shop for our customers' technology and connectivity needs.

Vivo Empresas is a digital hub for B2B delivering a unique set of corporate solutions. Our cloud and Cybersecurity segments proved how resilient we are despite of this year's economic downturn and grew revenues 77% and 116% respectively. And other initiative, Vivo Ads, our digital preparing platform saw its revenues grow 14% year-over-year. In

August, we launched the self-service sales channel aimed at expanding its reach to small and medium enterprises, making it possible for them to have access to mobile marketing campaigns.

To conclude, the Terra Portal remains the third largest portal in the country with BRL211 million per month in 2020, an increase of 35% year-over-year due to its improved media coverage, which also contributed to Vivo Ads revenue.

Now I'd like to pass it over to David, our CFO.

David Melcon Sanchez-Friera {BIO 17660109 <GO>}

Good morning, everyone, and thank you, Christian. Moving to Slide 12, I would like to present a brief overview of the acquisition of Oi's Mobile Assets. This opportunity will consolidate Vivo's leadership in quality of services, one of our historic strengths and contribute to the generation of additional value for our shareholders through the capture of synergies. The joint bid that won the auction on December 14, 2020, was set at BRL16.5 billion, of which we paid BRL5.5 billion. This (Technical Difficulty)

Operator

Good morning, ladies and gentlemen. Please hold. Good morning, ladies and gentlemen. Please hold. Excuse me. Speakers, you may proceed now. Thank you.

David Melcon Sanchez-Friera {BIO 17660109 <GO>}

Okay. Thank you. Let's continue with the Slide 12. So these are the key milestones of the overall decision process and we are confident that the transaction will be completed by the end of 2021. As you can see on the bottom left hand side of the slide, that will represents a unique opportunity for Vivo with the utilization of spectrum frequencies, we will strengthen our value offering and through the acquisition of customers in regions where we have lower market share, we will be able to make better use of our network and broaden our customer base.

Additionally, OpEx and CapEx synergies will certainly be enhanced by a solid track record of previous integrations, such as the case with the acquisition of GVT in 2015. Furthermore, this movement is positive, not only for Vivo but for the telco industry and Brazilian society as a whole. There will be a mass upgrade in customer experience given the improvement of network usage in all corners of the country and further acceleration of investment dedicated to infrastructure and innovation to advance Brazil digitalization process.

Turning to Slide 13, we saw our continuous commitment to improving our cost structure. Recurring cost excluding goods sold, contacted by 4.2% year-over-year in nominal terms. In order to discount the effect of the inflation, we will see an even more impressive 8.7% decrease. G&A and personnel costs were benefited by ongoing optimization initiatives and temporary government measures such as payroll subsidiaries. Commercial expenses

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saw a 9.2% reduction driven by our digitalization and simplification efforts, another positive factor has been the greater use of digital channels across our customer base, decreasing expenses by commissioning call center, billing and advertising. Provision for bad debt also dropped 9% year-over-year reflecting our customers' concern to maintain their payments up to date as well as the measure that we have implemented like offering the option to pay in installments.

Cost of services rendered decreased 10% year-over-year due to the higher interconnection cost, valuable regulatory fees that are impacted by the acceleration of the mobile customer base and the growing demand for digital services that comes through partnerships. As a result, our recurring EBITDA totaled almost BRL4.9 billion in the fourth quarter of 2020 with a margin of 43.6%.

On Slide 14, we present figures from our digitalization and simplification fronts that are key drivers for sequential cost contraction and improved customer experience. In December, e-billing penetration hit 84%, a significant 12 percentage points increase year-over-year, while payments made through digital platforms now represent 64% of collections. Presently, we started offering this new technical support and digital way of caring for our customers already represent 25% of the overall technical support. We were able to reduce call center costs by 24% in 2020 through the growing use of digital channels like Meu Vivo, artificial intelligence with AURA and a selection of WhatsApp solutions. The enhanced acceptance from our customers for a post that is digital was also seen in prepaid top-ups and B2C sales.

In December 2020, 37% of the charges were made through digital platforms. And our B2B digital sales increased 61% year-over-year except there is still room to advance in the digitalization journey both internally performing our back offices and in the way that we interact and serve our customers. On the right hand side of the slide, you can see that since 2017, we were able to deliver our OpEx savings of BRL1.5 billion. Our OpEx savings improved sequentially from BRL394 million in 2019 to BRL624 million in 2020. We ended the year having reached 94% of our 2021 target of BRL1.6 billion but let me again reinforce that we are confident that we can do even more.

Moving to Slide 15, on the left hand side of the slide, we can see the performance of our smart CapEx allocation. Our CapEx ratio decreased 1.9 percentage points year-over-year and our CapEx decreased 11.9% in relation to the previous year. Regardless of the reduction in CapEx, we invested even more in FTTH and cutting edge technologies in general. Growing technologies account for 70% of our total CapEx investment.

I would also like to share more details regarding our network sharing agreement with TIM. That is divided into three main products. In 4G coverage expansion, we have already reached 348 new cities and we expect to close the first semester of the year with 730 cities covered, half for each operator. On another front is the network consolidation that would result in a single grid model, focused on cities below 30,000 in EBITDA. We are carrying out a pilot in 50 cities, which will be completed during 2021, I will then be able to define the next assets. The full potential of this front involved an extension of the model to 1,600 cities. Lastly, we have the 2G network shutdown, which means that each operator will switch off half of the 2G sites. The alignment phase is ongoing and roll out is expected

for the third quarter. Through network sharing, we will have additional 4G coverage, better network capacity and OpEx and CapEx efficiency. We are enthusiastic about the future of this agreement and incorporate our commitment to quality and the optimization of our investments.

Turning to the next slide. I'm happy to report the conclusion of the unification of share classes. Since November 23 this year, we are trading with only the B3 tickers in the Brazilian stock markets, while the -- our ADRs ticker remains unchanged. This represents a significant step towards a greater level of governance granting all shareholders tag-along and voting rights. I would also like to give you an update about the share buyback program. So far, we have acquired 1.3 million shares for a total value of BRL58 million. We continue to be active and the program will be in place until January 2022.

Finally, enforcing our commitment to our shareholders, we are proposing a remuneration of BRL5.4 billion for 2020, which represent a payout of 113% and a gross amount of BRL3.2 per share. Our dividend yield stand at 7% more than 3 times the local interest rate. The payment of this amount will be divided in two tranches. The first tranche of BRL2.6 billion will be paid on July 13, and the second tranche of BRL2.8 billion will be paid on October this year 2021. This remuneration has been proposed by the Board of Directors and expanding the necessary approvals by the general shareholders meeting to be held on April 15.

And I'm finally moving to Slide 17, you can see that our efficiency, financial management and CapEx allocation continue to have a positive impact on cash generation. We ended the year with BRL9.6 billion of free cash flow, our highest level ever. This results in combination with a low leverage is what allowed us to consistently invest on our core business, consolidate Vivo's leadership and look to the future with a positive perspective.

Thank you. And now I pass the word back to Christian.

Christian Mauad Gebara {BIO 20398802 <GO>}

Thank you, David. To conclude today's presentation, I'd like to comment on the progress and some of the results around our commitment to ESG. Regarding our environmental initiatives recycle with we Vivo collected 7.7 tons of electronic waste in 2020, an increase of 15% in comparison to 2019. Vivo in it's first local submission to the carbon disclosure project had the best grade in the assessment and it was included in its prestigious A list. As for our social actions Fundacao Telefonica Vivo invested BRL59.4 million in education last year that benefited 2.4 million students and teachers. In response to the ongoing pandemic, there was also an additional investment of BRL36.6 million in donations, totaling BRL96 million in 2020.

Last month, Vivo also donated through Fundacao Telefonica Vivo, an additional BRL3,000 for the purchase of medical equipment in the state of Amazonas. Vivo was also recognized for its commitment to promoting diversity and social inclusion by winning the CNN Notable Awards in the diversity category. Another important achievement is the fact that we were classified as Industry Mover in S&P Sustainability Yearbook.

Finally, Vivo maintained its listing in the main ESG indexes like B3's Corporate Sustainability Index and Carbon Efficient Index, and our compliance program obtained the DSC 10,000 certificates guaranteeing our conformity with Brazil anti-corruption laws and regulation. These are just a few examples of how Vivo seeks to be a protagonist in promoting sustainable development contributing to our society.

Thank you. And we can now move to Q&A.

Questions And Answers

Operator

(Question And Answer)

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Frederico Mendes, Bradesco BBI.

Q - Frederico Mendes {BIO 19832788 <GO>}

Hello. Good morning, everyone. I have two questions here. I mean, the first one was related to the FTTH. A strong increase again in the ARPU and it looks like the higher speed products like the 300 megabytes is driving this growth. So in the first question here is, do you see room to increase the ARPU above BRL90, since I think it's the average that we have here? And then on the same topic, if these clients that you are adding, a very strong net addition again, if you are getting clients from the competition or if that's based an upgrade from the corporate clients that you already have? Thank you.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Hi, Fred. It's Christian. The second question about the net adds, most of it is new customers that are coming in. So most of the net adds are coming from new customers and also new cities that we enter or penetration of the existing network. So most of it is coming from new customers.

Regarding ARPU, so as you correctly stated, ARPU is improving for two reasons. We are selling more. The mix of high speed 300 is growing, so we still see room for growing even more. And also we are blended together with our broadband offer and OTTs, so we started with Netflix, very successful. We added Disney+ and we're going to add others in the near future. So blending content with fiber is a strategy going forward that we are going to follow and also increase and improve the mix of 300 or even high speed that is considered appropriate in the future, will also be in our strategy. So ARPU may continue with this positive trend.

Q - Frederico Mendes {BIO 19832788 <GO>}

Thank you. Thank you, Chris. And if I may just a quick follow-up. You briefly mentioned about the carve-out process during the beginning of the presentation. But can you give us a little bit more details on that or not yet? Thank you.

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A - Christian Mauad Gebara {BIO 20398802 <GO>}

Okay, Fred. So we ended the year with 15.7 million home passed, so out of these 15.7 million, we're going to carve out 1.6 million. We're going to contribute (inaudible) with this -- at this new independent and neutral fiber network, it's a company by Brazil. So Vivo is contributing at this 1.6 million brownfield HPs. Then we have an international investor as a partner and Telefonica Infra, that's from Telefonica Group also as a partner together in this vehicle and in this company. The objective is at the end of 2024, we end with network with more than 5.5 million HPs that contributed to the 24 million HPs that we said also in this presentation. That is going to combine organic growth from Vivo and this 5.5% originated by the neutral network.

Q - Frederico Mendes {BIO 19832788 <GO>}

Very clear, Christian. Thank you very much.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Thank you, Fred.

Operator

Our next question comes from Leandro Olmos, UBS.

Q - Leandro Olmos

Hi. Good morning, everyone. My question is on mobile. We noticed a very wide range of net additions in the quarter, a max with over 3 million subs in 300,000, and (inaudible) and you reached 1.8 million. So my question is, I want to understand your strategy in net additions in the fourth quarter of '20? What was it -- and how do you see that right now in 2021?

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Hi, Leandro. This is Christian. So as we stated in the beginning, we are seeing a recovery. I will talk about first postpaid and then we talk about prepaid. In the postpaid, after the very difficult months of March and April, what we saw after that was a reopening of the economy. Now when the reopening of the economy occurs, we also opened our stores and our physical channels and we see a better mood to offer the customers to go to malls and to stores and to buy telco services or technology services. So I think we were able to capture this positive trend, this recovery of the economy and reopening of the channels. Also believe that our superior quality and customer experience drove the decision for some customers to select Vivo as their operator, that you can see not only in the positive net adds and in the gross adds, but also in a very reduced churn. Our churn in the postpaid -- was one of the lowest ones in the last five years.

So that's the positive. And also, I think we've been innovating in our offer. We innovated in the hybrid and also innovated in the postpaid. Here, I will emphasize the Selfie plan, that is a combination of data with an OTT on value-added services. Here we have strong partnerships and we launched it just after the pandemic started in May, June, partnerships

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with Happy for delivery, partnership with Netflix for video, partnership with Spotify for music, partnership with Premier for football, and lastly partnership with Disney+ and we are about to launch new partnerships, that's driving this concept of buying content plus data in the same level of protagonism, and not only having data and with an added service as a secondary offer. So I think that stands out as very positive. And again, we are also being able to migrate prepaid to postpaid. Our net debt in the prepaid, as you stated, is very strong. It was strong in the third quarter. It also gives us room for migration for the hybrid, and that's also going to deposit. We recovered people with more mobility than they were before. People are buying new SIM cards and that we are able to capture. Again, the quality of the coverage of people stands out. And also there's the government aid. The government also with some incentives that they put in place in the last year, was also positive for driving consumption and prepaid in this case was also benefited.

Q - Leandro Olmos

Thank you, Christian. You mentioned that migration from prepaid to postpaid or hybrids. Looking at your own base especially considering the new prepaid you recently had, how long do you think that can go? How long can you -- how many more clients can you migrates on prepaid to hybrid or postpaid?

A - Christian Mauad Gebara {BIO 20398802 <GO>}

There are (inaudible) prepaid is increasing the base. Also when we keep bringing customers in, there is always room for migration and I cannot tell you for how long, I think we are putting a lot of effort in creating very wise and with very attractive portfolio coming from prepaid, going to hybrid, going to Selfie. Selfie is an individual postpaid plan going into the family plans that are already stand for different needs, one family together wants to have a plan. So I think you -- and we have people use our plan that is also sort of entry postpaid plan with a very personalized offer using a credit card.

So I think it's much more our ability to drive customers into people and get them with the best offer that's best for their needs. Our percentage of postpaid customers is very high, as you know, and here I think is our ability to drive our prepaid to postpaid. So that's why our revenues coming from postpaid is much higher than the one coming from prepaid. So that's the ability that we have to do that. So today we have 45 million access in postpaid and 34 million access in prepaid but this 35 million was asked by -- we added 1 million in the last quarter. So once we continue keeping this number growing and moving this number to the postpaid, I think it's mid long-term strategy.

Q - Leandro Olmos

Alright. Thank you very much.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Thank you, Leandro.

Operator

Our next question comes from Marcelo Santos, JPMorgan. Please proceed.

Q - Marcelo Santos {BIO 3999459 <GO>}

Hi. Good morning. Thank you for taking the questions. I would like to explore a little bit more the digital initiatives that you put on the Slide 11, Vivo Money and Vivo Marketplace. I wonder if you could give a little bit more color. On Vivo Money, how far has this been running as a fully implemented initiative? I understand you ran it as a pilot for a while, but is it available to all? What are the main hurdles to grow? And what alternatives of funding are you studying? Do you consider launching some kind of technique? Any data you could share about losses like the delinquency and things will be interesting. So anything basically, and on the marketplace how -- what kind of channels, I mean, are they just using more the app? Or is it more through the internet? What are the incentives you're putting to bringing sellers? ? How do you work logistics? So basically if you could give some more color on these initiatives, that would be very helpful? Thank you.

A - David Melcon Sanchez-Friera {BIO 17660109 <GO>}

So, Marcelo, good question. I think, to start, we strongly believe in our ability to leverage digital services through our customer base, channel capillarity both physical and online or big data capability and the strength of our brand. So Vivo Money that we included in this presentation is one example among many other that we are working in different sectors and different verticals. Financial services is one, hardware and accessories is another one, and health is another one, education, entertainment, so there are several ones.

Vivo Money, we've been working a lot in this project for a long time, and we have been very cautious and conservative the way we want to expand it. We launched it commercially in a segmented approach in October, was when we started offering this to a segmented customer base, it's not for everyone. And we started with hybrid and postpaid customers. We still haven't addressed the prepaid customers, that is most of the target that is maybe more aligned with the needs of this credit. What we did, we started offering for these customers. It's loans that coming from BRL1,000 to BRL30,000, and it's 100% digital, as you asked it also. So we normally do that through push marketing campaigns that the customers could click and then get the credit and also over our customer base, sometimes on SMS, we're also using it to address customers in the need of a loan.

The rates we want it to be attractive. So we compare ourselves with similar companies that are offering credit or loans to this customer base. Most of them are not banks. Some banks are answering that but others are companies that are just addressing the financial needs of this customer base. Here we started with FDIC and we're going to today is funded by us. But we're going to add more partners as it grows. What we try to show here is what we had in October was multiplied by 2.5 on what we had in December. We are being opening up a little bit more or getting awareness of the service. We're not doing a massive campaign putting onto fee or using all the channels available towards to market what this people money, we've been very conservative and cautious to start growing on that.

That's only one piece of a financial services strategy that we have. We're going to be talking about more financial services in the near future. Today, if you consider that our customers, they go and they buy most of my -- today, we reached more than 35% of our top-ups and prepaid already then digitally, why not this top-up that is digitally executed

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could not aim to be a wallet. So today they use this money only to buy data and buy a prepaid plan. We foresee that the same money that they put in the prepaid app, it could also use to buy other services. So that's also the initial thought that we had for a wallet that is Vivo wallet that we started from a customer base. There are already users for the top-up as I mentioned before.

So there are many other insurances or something that we already sell, so that we have pieces and Vivo Money is another business in a larger and broader strategy to have a relevant role in financial services.

And the other one that is in this slide, only to mention, if you want, is a marketplace. We have an e-commerce and our e-commerce sports center in selling our services, telco services plus the smartphone that is very close to the core that is the mobile service. We've decided to open up to be a marketplace for technology, not only selling the products that we have in our own store, but adding together stores from other players. So that's why we call it Loja Vivo that's a marketplace. So you can buy a smartphone, you can buy an accessory, you can buy a service from people, but you can also buy a fridge and you can also buy a blender. You can also buy different types of accessories.

We strongly believe that we can go much further with that. And so that's why we mentioned for the first time this with a number that's multiplied by 7, almost third quarter and now in the fourth quarter is multiplied by 7 are the results that we have in the third quarter. That's only to address some of the questions that we normally have, how can we leverage customer base, big data, customer channel capillarity, the strength of the brand and also our deal capabilities. These are few examples that we're going to bring more and more as soon as they develop. So that's -- if I address all your question, Marcelo.

Q - Marcelo Santos {BIO 3999459 <GO>}

Great. Thank you. Thank you very much.

Operator

Our next question comes from Susana Salaru, Itau.

Q - Susana Salaru {BIO 16170633 <GO>}

Hi. Good morning, guys. Thank you for taking our questions. We have two. The first question is related to the FTTH growth. It is actually expanding very fast. So our question is, how -- what is the pricing strategy once you want to get to at one place if you have a more aggressive pricing targeted to be able to maintain this level of growth going forward? That'll be our first question for FTTH.

The second question is related to the top half of the prepaid. How much more you believe that you can believe in terms of a legal recharge? I mean, we are asking that's an exploration because we understand that the acute costs in the prepaid -- the acute cost of prepaid is the top-up cost. So there was -- yes, I'd like to know in two years from now, do

you believe that attributed percentage of this charge is done digitally versus non digitally to ensure our dealers that would be an important driver for margin expansion? Thank you.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Susana, can you repeat the second question? I didn't get it. I can't answer the FTTH, but what's the question of -- I understand everyone -- the prepaid, what is the question, the top-ups?

Q - Susana Salaru {BIO 16170633 <GO>}

My question is like following the top-up today are digitally like 37%, but the 37% of the recharge are digital. Two years from now, what percentage of use or recharge, we believe we can reach? We are asking that because we believe that's an important driver to expand margins? So actually, if you are right with it's actual cost that can actually be better managed and accelerate margin expansion?

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Susana, I think we have been growing a lot in top-ups through digital channels and there are always new digital channels coming up. So, it's difficult for me to tell you what's going to be the limit. And I think also many more people are getting credit cards, so when the people have a credit card, he has more access to the digital channels. We have new wallets coming in, in the market. And these wallets also help the digital penetration. So, if you see some of the new brands coming up in the market that are used to buying in online channels. And I'm not going to name them, not to be naming one and not naming other, but there are many, many companies bringing up digital payment solutions. All of them, they have been adopted by people.

When we adopt this new ways of payment, we see an increase -- an important increase in the usage of digital channels. Now, the peaks also we will facilitate people to get money and facilitate people to have an account and we will facilitate people to transfer this money to a wallet. So that's why also I answered before Marcelo, that we see an opportunity for us to develop our own wallet. So, the number that we see here, I believe, it's going to be much higher. I think the two things will be very aligned with the circulation of appeals in the market. Some people believe that bills will be over in a few years, if they are over digital channels will be most of our top-ups. So there is room to grow and we are growing constantly.

IN the first one in the FTTH, as I said, we are the largest fiber network in the country. Last year we got 4.7 million new homes. We've got almost 1 million new customers. We have an ambitious plan to go to more cities. We are overlaying some of our ADSL and FTTC network when believe there is an opportunity. We still haven't played convergence. We can play convergence. We have the highest market share in mobile. We are -- we have strong partnerships with OTT and bringing content to the FTTH offer. So I believe there is room for much more growth. And that's why we are doing this independent neutral fiber network because we foresee as a great opportunity for Brazil where the penetration of ultra-broadband is still low. And we see Vivo as the leader in what we call convergent offer that is mobile, fiber plus OTT. We are in a unique position to do that.

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Q - Susana Salaru {BIO 16170633 <GO>}

Thank you. Very clear.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Thank you, Susana.

Operator

Thank you. Our next question comes from Soomit Datta, New Street Research.

Q - Soomit Datta {BIO 5351306 <GO>}

Yes. Hi, there. Thanks for taking my question. A couple if that's okay. First of all, on Oi. We have quite a bit of guidance from your kind of peers, Telecom Italia last night on how their business would look with Oi. I guess you're not giving anything specifically, but I wondered if you could maybe add a bit of color as to the direction of numbers when we think about incorporating Oi, specifically as well they kind of guided up to some incremental CapEx in 2021 ahead of the deal close? And I wondered whether you were going to see a similar step-up in CapEx, a kind of preparation CapEx, if you will. That's the first question, please.

And then secondly, on the balance sheet, you're paying a generous dividend this year above net income, you're buying back stocks. And where would you sort of envisage the leverage of the balance sheet getting on a sort of two-year basis? Thank you.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

So, thank you for the question. This is Christian. So, as you said, we're not giving much more information about Oi's. I think what we saw here is the process that we're going through and the stake that is for people if the deal is approved by Anatel and antitrust institution in Brazil called CADE. What you see here is the opportunity to bring customers to our customer base. And that with no additional cost. These customers will be served by our existing network. If you see areas that may be more aligned with people's lowest market share and areas where we have a very strong and robust coverage, not only in 3G, but mainly in 4G, different (inaudible) in some of these areas, our coverage would be superior and our quality will be superior with no additional cost in this case of bringing these customers in.

Also under customer care, we are able to also treat and take care of this customers with our own structure. We have a robust structure for digital channels, stores and call center enough also to address the incremental number of customers that we may have, if this operation goes through. We don't have -- we don't consider additional CapEx for this year, CapEx as you asked. And that's going to be absorbed in our project for the year. And it's different from our competitor, we don't give guidance here in Brazil about our numbers. But our CapEx will be controlled. I think we had an additional CapEx in the past for acceleration of FTTH that we said that we do that three years ago. Last year, we ended with BRL8 billion. So we're going to work and the number, like last year was unusual

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because of pandemic, but were going to come back to the level that we had when we needed to accelerate our FTTH.

Regarding dividend, I think David can answer you.

A - David Melcon Sanchez-Friera {BIO 17660109 <GO>}

Yes. Thank you. Thank you, Soomit. This is David. Let me cover the second question. So we continue with our policy to distribute 100% of the net income and this year on top of that we added up BRL600 million of distributed reserves that we had in the balance sheet. So we ended up having a very attractive shareholder remuneration, that was at around the dividend yield around 7%, which is 3x the SELIC which is locally interest right now. So considering that this year we will have a very, very strong free cash flow generation of more than BRL9 billion, that means that we will still have additional cash that could be used partially to final acquisition of Oi's mobile assets that we hope will happen, we expect by the end of the year.

And then we'll still -- we are suspecting, I mean this year there would be the 5G spectrum auction. And again, we will expect to leverage the company to absorb these payments and having such a strong balance sheet that we have today and the low interest rate that we are enjoying now here in Brazil, we say we have the best combination (inaudible) to combine growth, to keep investing in our core business, to have a strong shareholder remuneration as we have already shown over the last few years maintaining our policy of 100% plus to be able to fund at a very attractive interest rate all the opportunities that are coming in, in front of us, as I say, Oi's mobiles and also the spectrum auction that we will have during this year.

Q - Soomit Datta {BIO 5351306 <GO>}

That's really helpful. And as a very quick follow-up, which is, what is your latest expectation for the 5G auction in terms of structuring cash upfront or wrapped into future coverage? And what is the expectation for timing? Thank you.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

The 5G, we expect -- I don't have an official date, but the government has been stating that they want to do it by June, July. We still need the rules of the auction to be defined -- approved by the regulatory institution, Anatel, they may do that this week. That was our first vote, first three votes, and then there was asked for the President of Anatel to review the documentation about the ruling of the auction. There are some obligations related to the auction. They still need to be defined. The investment required end of gap for this investment. So, we're still waiting. We may have some news in the following days. These numbers of -- the value of the auction also needs to be approved by the -- to relative to what's going to be charged. So we need to get through the process that take a few weeks or months. And once it's ready, we're going to get prepared to that.

So I don't have any more news than the ones that is in the press. And we wait for a final meeting in Anatel to move the process.

Q - Soomit Datta {BIO 5351306 <GO>}

Okay, great. Thank you.

Operator

Our next question comes from Maria Tereza Azevedo, Banco Santander.

Q - Maria Tereza Azevedo {BIO 16178885 <GO>}

Hi. Thank you for the questions. Just a follow-up on the previous question on 5G. Can you please comment on your 5G strategy plans? Are you going to focus more on personal mobility or fixed wireless access or do you expect early adoption on B2B automation and IoT? And also in that context, do you see any opportunities not only on the ARPU, but also on the cost side from having 5G network with softwarization and virtualization that could optimize your network maintenance costs? That would be all. Thank you.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Hi, Maria Tereza. It is difficult for us to share the strategies that we are planning for 5G. It's registered at most of the topics that you just described. Of course, there's a usage of data mobile, usage of 5G that may increase. There are the usage of some apps or solutions that we can use with fiber but not with 4G. So 5G may also be helpful for that. And I mean gaming and many other entertainment that of course, 5G experience will be much better with the speed and the latency related to that.

Of course, we foresee the big number of new applications with IoT or B2C with connected homes, but B2B mainly as you just described as been doing some private LTE network with important clients in Brazil with great success. I'm sure that with 5G, we will be able to do that in a more massive way with better results. And here we are being working and already planning our business, industrial clients and many others under 5G. They also mean a different way of structuring their whole business. So again, and then in the end, you may consider smart cities, difficult to see the money that we're going to capture from that right now, we still have time for that, and many other applications that we're seeing in other countries.

Speaking of wireless, our focus is in fiber, is FTTH, but why not in some remote areas to complement our footprint as you're seeing here that we may end 2024 with 24 million home passed. There are many other homes in Brazil and why not complement this strategy as we do complement with 4G sometimes with FWA solutions. So we are open to all of them. In the cost side, it's difficult to tell you, there is of course some automation that maybe we capture, but there are many more sites that needs to be put in place for 5G. And I think you are again pioneering in sharing infrastructure. We've been doing that with team. And we're open to do more also in 5G. So we will be starting with 4G team, 3G, we are piloting single grade 3G, 4G. And again, we'll be opening to do that also in the 5G.

Q - Maria Tereza Azevedo {BIO 16178885 <GO>}

Perfect. Thank you, Christian. And just as a follow-up question, do you have any additional color you can share on the fiber (inaudible) process? Do you expect that you can improve

your returns on the fiber in the mid cities and reduce a little bit your CapEx? And how are you thinking about the franchisees as well for the smaller cities? Thank you.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

You're talking about the franchisee in Terra or the Fundao?

Q - Maria Tereza Azevedo {BIO 16178885 <GO>}

Both actually.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Okay. The franchising that we have with the Terra brand, it's very focused on smaller cities. The number of franchising is not in the number of 24 million homes passed that I said. We have already launched seven cities with franchise. The model is different. The CapEx is 100% for the franchisee. So Vivo has no CapEx. And the revenue, we only have royalties from the franchisee of royalties that is paid to -- sorry, the franchising fees that is paid from the franchisee to Vivo. So it's a different model. We are focused in the smaller cities. We have here the target of cities with less than 60,000 inhabitants, that it's more appropriate for franchising.

So we continue with this project, opening up in the different regions of the country. And also I said, we had seven and planning to have more. So that's part of the strategy. Here the CapEx, as I said, it's zero because it CapEx is not ours. In the other model that we already have in place with American Tower or Phoenix Tower. So there are our combined model where the CapEx is split between Vivo and the partner in this case talking about American Tower or Phoenix Tower together. We have already more than 25 cities. Part of the CapEx is responsibility of the partner. It reduces our CapEx and we pay for home connect and there's an OpEx related to any customer that we connect.

There's going to be a similar model that we're going to put in place with FiBrasil, lower CapEx and the OpEx related to connecting new customers.

And also it gives us the speed moment. It is not only the CapEx or OpEx formula, also speed. If you consider the case of American Tower in Buenos Aires, they bought a big telecom. So we leverage from the infrastructure there. We put parts of infrastructure that we already have there. We already our CapEx and we can address this opportunity much faster. If you consider that our aim there is to get to 800,000 home passed, we already surpassed 300,000. So we are doing very fast, moving very fast with very good results.

Q - Maria Tereza Azevedo {BIO 16178885 <GO>}

Perfect. Thank you. And the fiber spin-off is also in a branch box, right?

A - Christian Mauad Gebara {BIO 20398802 <GO>}

What -- the fiber is spin-off is what?

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Q - Maria Tereza Azevedo {BIO 16178885 <GO>}

Is in advanced stages and it could also drive a lower CapEx impacts on your balance sheet?

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Yes. It is in advanced stage. And the model is more or less the same that I said that we are developing with ATC American Tower. And part of the CapEx is a responsibility of the partner. In the case of Brazil, part of the CapEx will be responsibility of Brazil. And we're going to be the anchor tenant. So we're going to penetrate. Then we still have the CapEx related to the CPO, the customers' premises equipment. And we pay an OpEx for the usage of this neutral network to FiBrasil.

Q - Maria Tereza Azevedo {BIO 16178885 <GO>}

Perfect. Thank you very much, Christian.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Thank you, Maria Tereza.

Operator

Our next question comes from Alejandro Gallostra, BBVA.

Q - Alejandro Gallostra {BIO 17362308 <GO>}

Hi, good morning, everyone. This is Alejandro Gallostra. Thank you so much for taking my question. You mentioned at the beginning of the call that most of the new subscribers in FTTH come from new customers. However, the pace of these connections from other technologies is still outpacing the number of net additions in FTTH, even though you benefit from entering new regions with FTTH. So my question is what do you think -- why do you think customers from other technologies are migrating to other companies? What is -- why do you think or what are they offering that you do not this stage and what initiatives are you taking to increase the rate of retention of these customers? Thank you.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Okay. Thank you, Alejandro for the question. I'll restate what you said, our most of the customers that we are bringing to our FTTH are new customers. Your question is correct as well. The issue here is not -- the areas are not the same. Sometimes I'm coming to new cities. Most of the cities that I entered last year, I don't have any network. I only have network if I used to have FTTC, then there is an overlay on a new city. Or if I'm doing overlaying in the State of Sao Paulo, that is the only place that I have copper, no ADSL, no different from other players, our concentration of copper is exclusive in Sao Paulo. And then we have another few cities where we have bought from GDT where we have FTTC.

So the markets where enter or the markets where I'm losing customer, as you correctly stated, are not necessarily the same. When I am overlaying, when I'm entering, I'm losing

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these customers to myself. So these are the percentage that is the minority of customers, they are migrating from ADSL, FTTC to FTTH because they put the network there and they connect. They are already have people customer and it's much easier, and they migrate to FTTH service from the same operator.

But in some cities or in some places, I'm not there yet with FTTH. So these customers, the ADSL customer or FTTC customer may find out of another alternative with higher speeds that I cannot offer with ADSL and FTTC. I've been trying to retain this customer. But if he is an ADSL customer, with 4 megabits speed in their broadband, and I face the competition of a local fiber provider offering this customer 100 or 200 megabits, it's impossible to retain. The customer who is willing to pay a little bit more, they'll certainly migrate to this new technology.

But this same happened to us in places, where we were not there. There was someone that captured my customer that used to be DSL and now I'm winning back this customer. So it's a mixture of different scenarios, so they're not so easy to put a number. The only thing that I can say is where I get a migrate, I'm migrating because of deploying the network. Where I'm not deploying the network. I'm trying to retain but I normally I lose the customer because they have an alternative with much higher speed and we're answering and capturing the customer. Even if the customer is in another technology with higher speeds, normally fiber is the winner. So I win back this customer. It is a different technology with good speed but not as good as fiber for upload and download. And even when it's in a fiber local provider, I am able to capture this customer because I offer fiber, I offer ATT blended, I offer IPTV for those who want to buy IPTV and in the future, I also play convergence. I offer mobile plus FTTH.

Q - Alejandro Gallostra {BIO 17362308 <GO>}

Okay, great. Thank you for the explanation. And how long do you think it will take you to cover with FTTH, those regions would you still cover with only FTTC?

A - Christian Mauad Gebara {BIO 20398802 <GO>}

I may overly all the areas that I think are interesting for me, that it's financially attractive. But it's not -- it doesn't mean that I'm going to migrate on overlay 100%. In some neighborhood, some of the decisions of deploying FTTC were taken in the past. And we may agree to continue to just offer FTTC in these regions. And in some regions, as I see value we may migrate. So, I don't give you a number as part of our strategy, but it will depend on the values that we believe we can capture.

Q - Alejandro Gallostra {BIO 17362308 <GO>}

Okay. Great. Thank you very much for the explanation.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

Okay, Alejandro, Thank you.

Operator

This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr.Christian Gebara for any closing remarks.

A - Christian Mauad Gebara {BIO 20398802 <GO>}

So thank you all for joining our call today. If you have any additional questions, as you know, you please access our IR team. Hope to see you soon in our first quarter of 2021 results release that will be in April. So, thank you so much.

Operator

Thank you. This concludes today's Telefonica Brasil 4Q '20 results conference call. You may disconnect your lines at this time. Have a great day.

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