

## Q2 2021 Earnings Call

### Company Participants

- Christian Gebara, Chief Executive Officer
- David Melcon, Chief Financial Officer and Investor Relations Officer
- Luis Plaster, Investor Relations, Director

### Other Participants

- Fred Mendes, Analyst
- Leonardo Olmos, Analyst
- Marcelo Santos, Analyst
- Vitor Tomita, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Telefonica Brasil Second Quarter of 2021 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 slide presentation on the Internet that can be accessed at the website, [www.telefonica.com.br/ir](http://www.telefonica.com.br/ir). There will be a replay facility for this call on the website. As the company's remarks are over, there will be a question-and-answer session. (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 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 will turn the conference call over to Mr. Luis Plaster, Investor Relations Director of Telefonica Brasil. Mr. Plaster, you may begin your conference call.

**Luis Plaster** {BIO 19893310 <GO>}

Thank you. Good morning, everyone and welcome to Telefonica Brasil's earnings call for the second quarter of 2021. Today, the call will be divided in two parts. First, our CEO, Christian Gebara will present Vivo's main financial and operating figures, as well as the digital ecosystem and ESG highlights. Then our CFO, David Melcon will give you more information regarding our cost and CapEx structure, free cash flow and shareholder remuneration.

Now, I hand it over to Christian.

## **Christian Gebara** {BIO 20398802 <GO>}

Thank you, Plaster. Good morning, everyone and thank you for joining our earning calls. On slide 3, we show that this quarter was marked by a positive evolution of revenues, customer acquisitions, activation, as well as net profit. In mobile, postpaid access reached 47 million, up 9.2% year-over-year, taking the total mobile access base to 81 million, the highest level since 2015. In fiber, we posted 300,000 net additions and now have 4 million homes connected with FTTH, 41.3% more than the second quarter of 2020.

At the end of the second quarter 2021, we had a total of 97 million access, including mobile and fixed, which is 1 million more than the first quarter of '21. Total revenues also continued to accelerate, up 3.2% year-over-year, with core revenues growing an impressive 8.2% and already representing close to 90% of the total. FTTH and mobile services revenues were the main drivers, increasing 49.7% and 3.1% respectively. EBITDA grew 3% to BRL4.2 billion, a margin of 39.7% and net profit totaled BRL1.3 billion, jumping 20.9% year-over-year.

As for shareholder remuneration, we deliberated BRL1.3 billion of interest on capital so far this year, which translate into a dividend yield of 7.7% in the last 12 months. Furthermore, we registered an extraordinary tax gain of BRL2.1 billion due to the Supreme Court's decision to deduct ICMS from the basis of PIS/COFINS contribution, which we estimate will be an additional source for cash for the next 12 months.

Moving to the next slide. The momentum for our core business is escalating, growing 8.2% year-over-year and they are clearly the driving force going forward. Vivo continues to set the pace for high-speed connectivity mobile and fixed and how to combine it with a complete offering of digital products and service for both B2C and B2B customers. As our top line growth improves, we are also transforming the company to meet our customers' revamped demands and strengthen our relationship with them.

Ultimately, this results in lower churn, higher engagement, revenue recurrency and consequently improved lifetime value. Our core businesses represent a new chapter in Vivo's equity story and we are convinced of the value that can be unlocked in the short-term to the medium-term.

Turning to our wireless revenue performance on slide 5. Total mobile revenues grew 5.6% year-over-year in the second quarter '21, with services revenues increasing 3.1%. Prepaid delivered another quarter of encouraging trends, up 8% and postpaid returned to

positive territory, growing 2.1% year-over-year. Handset sales also continued to recover, up 47.3% year-over-year.

The temporary confinement measures applied in April resulted in lower commercial activity for that month, which negatively impact the quarter-over-quarter comparison. With stores open now and the economy picking up, we see reassuring trends and are optimistic about the rest of the year.

Moving to the bottom right-hand side of the slide, a quick update on the position of Oi's mobile assets. The necessary regulatory antitrust approvals are advancing accordingly. We should have more concrete news around the end of the year. We are confident that the outcome will be a more sustainable environment for investments in infrastructure and innovation, resulting in an improved mobile network and overall customer experience. We will keep you informed about the relevant progress.

Turning to slide 6. The quality of Vivo's network and services is what brings our customers closer, allowing us to consolidate our leadership in the mobile segment with 33% market share as of April 2021. At the end of the second quarter '21, we had nearly 81 million mobile access, 6.6 million more than in second quarter '20, a growth of 8.8% year-over-year. Prepaid that has 34 million customers, grew 8.2% and postpaid that has 47.1 million increased 9.2%.

On the right-hand side, you can see the customer acquisition is being enhanced by migrations and elevated portability that was 3.7 times higher than the second quarter '20. These customers are not only choosing Vivo as their connectivity provider, but they are increasingly more loyal. Postpaid churn repeated similar trend seen in previous quarters and stood at a record level of 1.3%.

Turning to core fixed revenues. We are proud to present a strong year-over-year growth of 16.4% given the demand for high-speed broadband and digital services. FTTx revenues were up 14.3%, with FTTH revenues advancing an impressive 49.7% year-over-year, driven by ARPU increases, enhanced sales with OTT bundles and the ongoing ramp-up of new activations.

Accordingly, with the expansion of our fiber footprint, we continue to see significant IPTV revenue revolution that was up 29.5% year-over-year. Like we saw last quarter, data and ICT revenues are recovering, rising 14.8% year-over-year. This is a promise indicator that companies are effectively starting to invest again. All in all, core fixed revenues are growing double digit and we expect this trend to continue.

Moving to slide 8, we're seeing the results of our fiber strategy as the number of FTTH homes passed at up reaching 17.3 million at the end of the second quarter '21. This means that our fiber footprint grew 1.3 times year-over-year, consistently expanding Vivo's presence both in existing and new cities. Currently, Vivo Fibra is available in close to 300 cities nationwide.

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In the second quarter, we posted 300,000 FTTH net adds, taking our number of homes connectivity fiber to just over 4 million. This is almost twice what we had two years ago and over 1.1 million more than second quarter '20. We continue to focus on connecting more fiber customers during the rest of the year, maintaining an elevated volume of net additions. On slide 9, we give more color on FiBrasil, our neutral fiber network created in partnership with Telefonica Infra and CDPO. That's up and running and will deploy 500,000 FTTH home passed in the second half of this year. These initiatives will allow us to accelerate our fiber rollout and consolidate our leadership. We will manage all commercial and customer service activities, while remunerating FiBrasil for the use of its network.

FiBrasil will start with 1.6 million home passed in 34 cities across Brazil, that will be carved out from Vivo and is expected to reach more than 5.5 million home passed over four years, taking fiber to both greenfield and brownfield cities. The proceeds from the transaction will have a positive impact on Vivo's cash flow now and in the years to come, conditioned to pre-established targets. Additionally, part of the proceeds will go directly to FiBrasil to fund its deployment strategy.

On slide 10, you can see how we have been adapting to the ever-demanding improvement in connectivity. Over the last year, the average speed of gross adds has skyrocketed. Due to our focus of offering reliable broadband to our customers, the average speed went from 118 megabits per second in the third quarter '20 to 238 megabits in the second quarter '21. The extent of this increase in speed is an ongoing contribution to FTTH ARPU growth. By bundling high-speed broadband with digital services, we are able to decrease our FTTH churn by 29% and improve the mix of new customers. To-date, around 40% of our fiber gross adds have speeds equal or above 300 megabits, meaning that we are increasingly attracting high-value customers.

Moving to slide 11, we show the progress of our objective to build a digital ecosystem and deepen the reach of our relationship with customers. Vivo has a unique set of key enablers, listed in the left-hand side of the slide that allow us to play a significant role on several fronts, all of which escalate our relevance in our customers' digital life needs.

Through Vivo Money and Vivo Pay, we already offer a portfolio of financial services at favorable price points, all accessible in digital format and are seeing ramped up demand. Our health and wellness platform, Vida V, starts-off with telemedicine consultations and mind fitness approach and will evolve along the entire healthcare value chain.

Shopping Vivo, our marketplace for tech-related needs and home office solutions is gaining awareness and will increasingly become a benchmark for this segment. Finally, we are putting together a platform that leverage on our leading pharma connectivity to offer home-related digitals and automation services with equipment from leading national and international suppliers and re-enhance our customers' lives. All these initiatives reinforce themselves and allow us to expand beyond traditional connectivity, putting Vivo on the path to become a digital champion in a continental size market like Brazil.

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Next on slide 12, I would like to talk about Vivo's digital channels that are increasing in relevance, as they improve their overall customer journey. Our main relationship channel Meu Vivo, fosters 90 million unique users that carry out approximately five interactions per month. As a result, it's the platform for choice for our customers and 78% of our contacts are made through the app.

Moreover, Meu Vivo isn't only the present and future of our e-care platform, but it's also a lever to enhance revenues. In fact, around 50% of digital upgrades and mobile sales, 40% of marketplace traffic and more than 50% of third-party app sales are already originated there. On the right, you can see also our Net Promoter Score for stores, technicians and WhatsApp support that are higher than those of the industry. People choose Vivo for its unmatched customer experience and these figures attest that our efforts are making the difference.

Lastly, on the bottom of the slide, you can see that the ramp up of digital channels is multilayered. Revenues from digital prepaid top-up grew 27.7% year-over-year. Vivo Easy, over 100% digital mobile plan more than doubled and online FTTH sales rose 18.6%.

Turning to slide 13, I would like to comment on Vivo's most recent ESG initiatives as they continue to expand, generating a positive impact for all stakeholders. On the environmental front, Recycle with Vivo reached a new stage, aiming to accelerate the simple economy with more than 1.5 million broadband and TV equipment's refurbished by the end of the year.

In addition, we also expanded the distributed generation project, that's 100% based on renewable sources. It will be able to power 30,000 consumption units around Brazil by the first quarter 2022 through the generation of 81 average megawatts coming from 80 distinct clean energy power plants. In the governance sphere, Vivo obtained the ISO 27001 certificate for the vulnerability management process of its digital security program Vivo Segura, which ensures alignment with the best international practices.

Also we were rated in the 11th position in Merco's ranking of the most responsible companies during the pandemic and in top position in terms of responsibility and governance. Finally, we were also recognized in the fifth edition of the Best Companies for Women to Work 2021 as having the best reputation of the sector. These initiatives are designed to enhance efficiency, environmental preservation and contribute to the wellbeing of the society.

I now turn the call over to David, our CFO to take us through the financial highlights.

**David Melcon** {BIO 20331862 <GO>}

Thank you, Christian and good morning, everyone. In slide 14, we highlight our cost mix and evolution in the second quarter. Vivo is evolving from a pure telco company into a digital hub, offering services that go beyond connectivity both for B2C and for B2B customers. This transformation is not only supporting and enhancing revenue growth, but also changing our cost base mix. The cost of service and goods sold which are the

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catalysts to underpin positive revenue trends accounted for 29% of the total cost and increased 22% year-over-year as B2B demand for services and product continues to recover and B2C customer base accelerated growth, both in digital content and handset sales.

On the other hand, OpEx from operation that represent 71% of total cost reduced 2.9% year-over-year, benefited from our efforts to capture efficiencies and improve our operating model by eliminating non-quality costs. It's also important to point out that digitalization initiatives continue to ramp up, contributing to offset inflation. All in all, total cost increased 3.4% this quarter, although when excluding cost of handsets, it would have reduced 0.3%, demonstrating our cost discipline, while supporting revenue growth acceleration.

Moving to slide 15, our CapEx in the second quarter this year increased 18% year-over-year, reaching BRL2.2 billion, of which 83% focus on transformation and growth initiatives, mainly related to the expansion and upgrade of our fiber and mobile infrastructure in Brazil. The higher CapEx this year is also a result of a low comparison base in 2020 due to the pandemic impact.

We constantly strive to optimize our CapEx allocation and improve returns by adopting alternative models. In this sense, Vivo is a pioneer in the Brazilian space, leveraging on a Network-as-a-Service model with American Towers, Phoenix and with the recently launched neutral fiber network FiBrasil to reduce time to market and decrease cost summing up to 74 new cities. Additionally, with the expansion of Terra Fibra franchise will reach another 17 cities.

Our RAN sharing agreement with TIM also has relevant updates. First, the 4G coverage expansion initiative is concluded, delivering 360 new cities covered with this technology for each operator. We should also conclude our network consolidation pilot in about two months, unlocking an opportunity to reduce expenses, optimize spectrum usage and improve quality in 1,600 cities. Lastly, the 2G switch-off is advancing according to the plan and the rollout is expected to be completed by the end of this year.

Turning to slide 16, our reported net income for the second quarter this year grew 21% year-over-year, reaching more than BRL1.3 billion, allowing us to declare a similar amount of interest on capital as of June 2021. In fact, the dividend yield accumulated in the last 12 months stand at 7.7%, one of the highest in the industry. Regarding our schedule of payments related to the 2020 profit, the first tranche was paid on July 13 in the amount of BRL2.6 billion and the second payment of BRL2.8 billion will be made on October 5.

In this quarter, due to the Supreme Court decision that confirms the exclusion of ICMS from the basis of calculation of PIS/COFINS contribution, a new tax gain of BRL2.1 billion was generated, which will become an incremental source of cash for the company in the next 12 months.

To conclude the presentation, we can now move to slide 17. Free cash flow for the first half of 2021 decreased year-over-year, mainly due to the increased CapEx, focus on revenue

growth, as well as higher taxes explained mainly by the earning growth in the period. That said, the free cash flow generation of BRL4.1 billion further reinforce Vivo's balance sheet. Since the end of last year, our gross debt reduced 34%, reaching BRL1.8 billion, while we registered a net cash position of BRL6.6 billion as of June 2021, placing us in a solid position to fund the acquisition of Oi's mobile assets.

And now we can move to the Q&A.

## Questions And Answers

### Operator

Thank you. (Operator Instructions) Our first question comes from Leonardo Olmos, UBS.

#### Q - Leonardo Olmos {BIO 21197412 <GO>}

Hello. Good morning, everyone. I have a few questions, all in the theme of mobile pricing strategy. Even though you increased prices in the first half of 2021 as the competitors did, your ARPU is still negative. So my first question is what is cause of this? And then in the same topic, we saw maybe the reason for that is a strong level of net additions especially in the last 12 months, could you discuss that if the net additions -- the high number of net additions following the negative ARPU? And the last part of my question is, what should trigger a more comparing mobile revenue growth going forward? Thank you.

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

Leo, can you repeat the second question please?

#### Q - Leonardo Olmos {BIO 21197412 <GO>}

Yeah, the second question is trying to understand why the ARPU is -- had a negative growth, the mobile ARPU, if that is caused by the large number of net additions that it had in the last 12 months?

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

This one I got. Thank you, Leonardo, this is Christian answering. The ARPU, yes, the mix, it changed, so if you talk about -- let's talk about the postpaid ARPU for instance, know? We had a lot of net adds coming from the hybrid that has lower ARPU, so of course, that changes the total ARPU for the postpaid, know? So that's the main reason explaining that.

In the prepaid, the government aid, no, that the one that they were giving in the last year and then they stopped for a while now impacting the ARPU in the first months of this quarter was the reason, also we see this difference, no? So what is important here is that our customer base is increasing, and our revenues is also increasing, in both postpaid and prepaid.

So in the postpaid, it's more for the mix, as you said, net adds being accelerated with acceleration of also migration and with a lot of hybrid it impacting the total ARPU of post.

And the prepaid that was -- when there was the cease of the aid of the government, we saw recurrency going a little bit down, customers used to have more recurrency and then it got back to the levels that we saw before. So we are confident of the growth and it's growing also in the revenues and total revenue. So that's the main reasons behind the ARPU evolution.

**Q - Leonardo Olmos** {BIO 21197412 <GO>}

Okay. Yeah, then the last part of my question, should we expect maybe a stronger mobile revenue growth in third quarter and fourth quarter?

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

We don't give guidance, Leo, but we are positive about the evolution of the mobile. The economy is recovering, and we are doing good performance commercially and June was a good month, now it's the last month of the quarter of this quarter. So we are positive about the trend.

**Q - Leonardo Olmos** {BIO 21197412 <GO>}

Very clear, Christian. Thank you very much.

**Operator**

Thank you. Our next question comes from Vitor Tomita, Goldman Sachs.

**Q - Vitor Tomita** {BIO 19238819 <GO>}

Hello. Good morning all and thanks for taking our question. Two questions on our side, the first one is, if you could comment on which of the digital ecosystem initiative do you see is having the most potential to gain relevance in the near-term and we should see as most promising for the long-term and big data applications? And the second one is, if you could elaborate on how you see the current state of your B2B customer base following pandemic impact and on key trends for the B2B business that we should keep in mind going forward? Thank you.

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

Thank you, Vitor. In the digital ecosystem, it's a combination of sectors and verticals, now let's -- it's a little bit behind. If you go to the attributes and the assets that we believe we have, I think we described this in the presentation and I think we mentioned it more than once in the previous call. I think it's when you talk about ecosystem and not comparing ourselves with any other telecom comparing ourselves with other players that want to be a digital ecosystem, it's difficult and I don't see any other in Brazil with the number of access, with the number of stores plus online capabilities, with the strength of the brand, with the users already in the digital channels, with the capability in big data and for platform that we consider ourselves one of the top three companies in the country and also the existence of a portal, that's Terra that also help us to have more views and more users connected to our platform.



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So having all this, we are betting in some areas. Now as I said before, financial service is one that we see capabilities that we could leverage on that. Again this is a little bit more crowded environment because everyone is trying to be in this, but we believe that because we have some capabilities that others don't have, we have been able for instance, in Vivo Money to lend money to customers, then maybe the banks, they don't have interest or they don't have access to any information about discussion that we do have in the digital wallet. I also believe that we are already a wallet for prepaid customers that every month top-up using one of our digital channels. So why not using the same channel and the same app to buy other digital services? So financial service is one.

Health and wellness is the second one. We announced already that our partnership with Teladoc, one of the leading company in telemedicine in the world, so believe that we're going to be able to attract other partners and be a real relevant health platform. And again I'm not competing with health plans because we are not a health plan, we are giving access to health to customers that don't have the possibility to have a private health plan. And again, it's out of the target of most of the largest players in the market. Then there is education, we may announce soon something new on this area as well.

The fourth one that is already there is entertainment, so we are doing a lot already. Here we are partnering with the big ones and we're distributing entertainment through mobile plans that is Vivo Selfie and also through our fiber. We're saying in this presentation that 40% of our new customers, new activations, they buy fiber plus entertainment could be Netflix or Disney Plus or others that we are announcing very soon.

The other one is marketplace, we want to be a marketplace, Vivo Shopping, not only selling our services and our products, but also selling products and services of others. And then the connected home, we believe that once we are installing fiber, we could also install more things in the automated home. So we are now not only deploying that in our stores having all the accessories and all the devices related to automated home able to sell there.

We are selling that in the marketplace and also we are helping our team -- installation team also to help customers installing it and we're going to charge for that. So that's why also we got a partnership in one company that is specialized in technical support for call center or digital channels. We are also deploying marketplace and also partnership of Dotz that gives loyalty points to customers to use their platform, so it's a combination.

So combining all of them, we believe that being centered in the customer, having the customer, if the recoveries that they already have with Vivo could increase engagement, we could increase lifetime value and then we have a very lower customer acquisition cost because that's all important. This new business -- today they're being measured only by the number of customers, we are measured by many other KPIs. And in our case, we're going to be able to bring customers with a lower customer acquisition cost because it's going to be marginal, because going to sell our service plus other services and we are able to increase our ARPU and reduce our churn. So I think it's a win-win situation in the case of Vivo.

If you have a second question, Vitor, maybe I got the first one and the second?

**Q - Vitor Tomita** {BIO 19238819 <GO>}

Sure, so --

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

B2B, sorry. B2B, okay? The numbers of B2B, the growth that we have in mobile and in FTTH, they are driven by both, okay, both B2C and B2B. And if you go to specifically to data ICT, that's a number that we show in our core fixed revenues. We saw very important growth of 14.8%, now in this figure it's in the quarter, we are talking about more than BRL800 million. That shows a positive trend for B2B.

What we see right now is with the recovery of the economy, the demand for connectivity and other type of mobile solutions, private LTE and many others and also equipment acquisition for many solutions that we are getting prepared to sell is increasing. And also the group Telefonica is also developing some verticals in cybersecurity, cloud, IoT through Telefonica Tech and we also see the demand for this type of services growing. So we are positive about B2B trends.

**Q - Vitor Tomita** {BIO 19238819 <GO>}

Perfect. Thank you very much.

**Operator**

Our next question comes from Marcelo Santos with JPMorgan, please proceed.

**Q - Marcelo Santos** {BIO 20444938 <GO>}

Good morning. Thanks for taking my questions. My first question is regarding the fixed broadband environment, if you could please comment a bit on how do you see the competitive environment with so many players coming to the market and also established players deploying their fiber vehicles and what do you think the end game is going to be in Brazilian ultra-speed fiber? And the second question is about the core revenues on the fixed line, which saw some deceleration this quarter versus the previous one. So could you please comment on the trends on the fixed core revenues and how do you see this going forward? Thank you.

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

Hi, Marcelo, it's Christian again. So first, let's talk about our performance and then I talk a little bit more about the others. So some years ago, we said that we was -- like we were planning to have additional investment to deploy fiber in Brazil. We had the objective, the goal to get to 14 million home passed by the end of 2020 and we ended the year with more than that and now we are with more than 17 million home passed.

So our bet and our strategy to be the leading company in fiber proved to be the right one. Also in the meantime, also lately we closed the deal to create the first virtual network

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neutral -- sorry, neutral network in fiber in Brazil with CDPQ and Telefonica Infra, now it's already up and running and we have the objective of not only the second semester of this year to deploy 500,000 home passed, adding to the 1.6 brownfield that we carved out from Vivo and objective in four years to get to more than 5.5 million home pass.

So what we see now that everyone is -- we see small players now trying to increase their share or even being acquiring smaller companies and also we see other competitors also deploying their neutral network, that was proof that we were right and we started first. So that's why we have the leadership in home pass and in home connected.

Going forward, now we also have a vehicle that the one that we created with CDPQ, that's FiBrasil, that allow us to look for some possible M&A. If we find anyone that has the standard of technical solution, the standard in the fiscal discipline and financial discipline that we require and if the right pricing because again, we are the ones with the largest scale to deploy fiber, with the expertise of our group that is also the leading fiber provider in Europe. So we just want to buy what is really reasonable in a financial standpoint.

What we see is some players that you asked, most of them don't overlap with our network. They are in very, very small cities, some of them start to overlap in some cities, not necessarily the overlap in the same neighborhood. Of course, there is no room for many players in the same place and when it happens, I think Vivo has unique assets to be the winner, apart from being the number one, with the strongest brand and with the technical network that allow us to give very high speed, upload and download that when we face competition, that proves to be differentiation and that proves to be what gives us the leadership and the ownership of the customer.

We also have the TV content, some customers still more than 30% still buy with IPTV, most of these competitors don't have this alternative. We have the physical stores, we have the digital channels that I said before. And we have also the agreements for digital services, so when the customer doesn't want to buy the IPTV, we have very good competitive offers that blend our fiber with Netflix, Disney Plus as I said before and many other partnership that we'll announce very soon.

And finally, when we need to play the convergence, we are the one with the leading market share in mobile and with the leading market share in postpaid that combined with the FTTH give us a unique position to be the winner in the number one in the market. Again, I think the others, the market should be a little bit more rational. I don't see room for so many players competing in so many cities face-to-face.

Regarding -- sorry, the second question, can I go to the second one, Marcelo, did I answer the first one?

**Q - Marcelo Santos** {BIO 20444938 <GO>}

Yes, very comprehensive. Thank you.

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

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Okay. So about the core, the good thing is that if you consider fixed and mobile, the core represent almost 90% of our revenues, okay, so that's the first point. If you go to the core fixed revenue as you asked, there is a slight change, okay, that's a lot driven by B2B, that was the previous question. B2B has very seasonal revenue, sometimes we have a very big deal being closed in one quarter. There's a lot of equipment sales also related to this deal. It could change a little bit the evolution. The good thing I think here is to highlight is that data and ICT that is a B2B business is growing, is growing double-digit. When you see IPTV, IPTV is growing, is growing almost 30% and if you focus in FTTH, that is the driver of the core fixed revenues, it's growing almost 50%.

So when we see our revenues considering that in a quarter more than BRL1 billion of our revenue is already FTTH. If I add that to IPTV, we're talking almost BRL1.4 billion in FTTH plus IPTV, that's very unique. And if you annualize this number, it put us in a very strong position as the leading player in FTTH in the country and in Latin America. So just a small change and of course now, we're going to have growth from a very important base of revenues already coming from fixed core revenues, what give us a positive trend for the future in the evolution of the total revenues of the fixed business.

**Q - Marcelo Santos** {BIO 20444938 <GO>}

Perfect. Thank you, thank you very much.

**Operator**

Our next question comes from Fred Mendes, Bank of America.

**Q - Fred Mendes** {BIO 17221617 <GO>}

Hey. Good morning, everyone and thanks for the call. I have two questions as well, I think the first one is a follow-up from Leo's first question. I do understand that obviously there was a change in the mix, the net adds are really strong. But even when I look at the mobile service revenue, right and then I look at all of the net adds you're doing and I look at your competition, the dynamics for me they look a bit different than what we would be expecting in terms of the mobile service revenue. So I'm just wondering, if you are seeing a little bit more of competition or maybe? And then as a second question as a follow-up for the first one, as you expand your FTTH and you combine your offers and your operative core fee, maybe you are giving some discounts on the mobile service and that's what is impacting your mobile service revenue? Thank you.

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

Hi, Fred. No, the second question is not the reason, we are not giving a lot of discount and I don't think that is what is impacting the ARPU. I think the ARPU and the evolution of course is a very competitive market and of course that we are not seeing -- we don't have the inflation that used to have, that could allow us to increase much more price. But if you consider, for instance, for one of the questions asked before, what I see for the next quarters, we increased price for hybrid, that is the most important part of the revenues coming from B2C postpaid in June. So most of the impact will be captured in the next quarter.

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So, I'm very confident about our ability to keep attracting good customers for Vivo. Again we are not lowering price to attract more customers, we are not doing that and if you see our price in prepaid, hybrid and postpaid, we are not with the lowest price far from that and also we don't give a lot of things for free, different from some of the competitors.

So confident that we continue to keep a good positive trend and in the prepaid we are attracting lot of new customers. We're going to be able to migrate these customers and we are doing and as we've been doing for so many years migration from prepaid to hybrid and from hybrid to postpaid. We just need to find the right customers to the right plan. Now what is important and what we expect the market to be rational is not to giving up a lot of data to the wrong segment, otherwise, it's going to be very difficult to migrate.

So we need to have the right volume of data for the prepaid to be able to migrate it to the hybrid with a differential offering the data and also be able also to drive the hybrid to the postpaid. Moreover, what we are doing, of course, we're going to combine FTTH with postpaid for some customers and we're going to combine the digital service to increase ARPU as well. And our churn is very low, one of the lowest level of churn of the last quarter. So we are positive that we're going to be able to capture revenues and continue to grow.

#### **Q - Fred Mendes** {BIO 17221617 <GO>}

Thank you, Christian. Thank you, very clear. And if I may just one more related to the CapEx, there was a significant increase in this quarter, obviously, you were expanding significantly your network. But just trying to understand the dynamics of the homes pass and homes connect, obviously, there is a lot of demand for that, everyone is or a lot of players are moving to the FTTH deployment. So if we are seeing an increase in this cost or even in the labor to do it or they basically remain the same? Thank you.

#### **A - Christian Gebara** {BIO 20398802 <GO>}

No, it's more the comparison with the second quarter of last year, it was a tough quarter, especially because stores were closed and people were more concerned about having someone installing fiber in their homes. Although, after the first month that was difficult, we could recover it very rapidly, especially because we have the best services in the market and people were asking for a good connection, upload and download and fiber is the key technology for that.

I think we're getting scale in deploying fiber, so it's not a unit cost that is increasing. And of course we are -- we have more homes passed and also once we have more home pass, we have more the opportunity to sell more, selling more our core net adds this quarter is much higher than net adds. And if you go to gross adds, now that is impacting by the CapEx, it's also very much higher than it was in the second quarter, but I think it's what we expected before. I think the CapEx this quarter is much more of a comparison of a tough second quarter 2020 with the impact in the first months of the pandemic. Going forward, we're going to keep growing in the customer base of fiber that requires CapEx but we are confident and that we are reducing churn, that's going to be with the payback better than we used to have and we're in a good trend -- in a good trend and very optimistic about it.

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**Q - Fred Mendes** {BIO 17221617 <GO>}

Perfect. Thank you, Christian. Very clear.

**Operator**

This concludes the question and --

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

Okay. So, thank you everyone for participating in the Vivo's second quarter results call. As I said, we are optimistic about our performance going forward, leverage on the economy's recovery and in our unique position in Brazil. As always, now our team is available for any additional question that you may have. Thank you, all.

**Operator**

Christian, proceed with your closing remarks.

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

Sorry, I thought was -- I already made them, but I will repeat. So thank you everyone for participating in our Vivo second quarter results call. As I said, we are optimistic about our performance going forward, leveraging on the economy's recovery and in Vivo's unique position in Brazil. Now as always, our team is available for any additional question you may have. Thank you all for participating.

**Operator**

Thank you. This concludes today's Telefonica Brasil second quarter 2021 results conference call. You may disconnect your lines at this time. Have a good day.

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