

Y 2021 Earnings Call

Company Participants

- Christian Mauad Gebara, Chief Executive Officer & Director
- David Melcon Sanchez-Friera, Chief Financial & Investor Relations Officer
- Joao Pedro Carneiro, Director of Investor Relations

Other Participants

- Analyst
- Arturo Langa
- Felipe Cheng
- Freddie Mendes
- Marcelo Santos
- Victor Ricciuti
- Vitor Tomita

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Telefonica Brasil Fourth 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.Joao Pedro Carneiro, IR Director. We also have a simultaneous webcast with slide presentation on the internet that can be accessed at the site, 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 session. At that time, further instructions will be given. (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. It could cause results to differ materially from those expressed in such forward looking statements.

Now, I will turn the conference over to Mr. Joao Pedro Carneiro, Investor Relations Director of Telefonica Brasil. Please proceed.

Joao Pedro Carneiro {BIO 20134826 <GO>}

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

Now I pass it over to Christian.

Christian Mauad Gebara {BIO 20398802 <GO>}

Thank you, Joao. Good morning, everyone, and thank you for joining our earnings call. On Slide 3, we'll start with the main highlights of the quarter that's closed 2021, on a very positive note. In the fourth quarter, we achieved our largest ever customer base with 99 million access, as our postpaid reached the historical mark of 50 million customers while their homes connected with FTTH soared 36% year-over-year to 4.6 million with Vivo registering over 1.2 million net additions in 2021, 37% more than in 2020. Our strong operating performance allow us to unlock positive year-over-year evolution across all lines in the fourth quarter '21 as we were able to grow total mobile services, handset, and fixed revenues, as well as EBITDA, net income and free cash flow.

On the revenue side, the fixed services grew 0.8% year-over-year, confirming that we were able to refer the negative trend that for several years pressured the top line of this business. We saw core fixed revenues increasing 13.7% year-over-year driven by a 31.2% growth for FTTH revenues. In Mobile, our revenues expanded 3.7% year-over-year in the quarter, with Handsets up 8.8%, and Services growing a solid 3.1% led by the acceleration of upsells within our customer base and improved postpaid portability figures. Our EBITDA grew 1.2% year-over-year in the fourth quarter '21 as our revenue acceleration was able to offset impact stemming from double-digit inflation recorded in 2021. As a result, EBITDA margins stood at 42.9% in the quarter.

Finally, as our bottom line for the quarter doubled in comparison to fourth-quarter '20, we were able to register a net income of BRL6.2 billion in 2021, up 30.6% year-over-year which will be fully distributed to our shareholders. On top of that, we bought back BRL500 million of our shares during the year, leading to a (inaudible) position of 14 million shares by year-end, which were canceled in February 2022.

Now moving to Slide 4. In the fourth quarter '21, our total revenues expanded 2.8% year-over-year, driven by the 6% increase seen in our core business revenues, which represented over 90% of our total (inaudible) of our complete and up to date portfolio of connectivity and digital services solutions, which is fully meeting the demands of our B2C

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and B2B customers, has been generating top-notch results and will continue to drive our business forward over the next quarters and years.

Let's move to Slide 5, where we detailed the evolution of our mobile revenue in the quarter. In terms of mobile services revenues, we had our best fourth quarter performance since 2017, with an expansion of 3.12% year-over-year. While we were able to maintain prepaid revenues flat over fourth quarter '20, our postpaid business expanded 3.9% year-over-year, led by the rational value driven approach towards our offer portfolio and increasing customer base. As a result, postpaid accounted for 81% of our mobile service revenue in the quarter, a very valuable asset in periods of high inflation since we have historically been able to pass through inflationary effect of postpaid customers on hourly basis. In handsets, we were able to grow revenues by 8.8% throughout the year in fourth quarter '21 positively impacted by successful Black Friday and Christmas campaign. As a result, our total mobile revenues expanded 3.7% year-over-year in the quarter.

On Slide 6, you can see that we will close another year as the mobile market leader with the highest sharing total postpaid and prepaid lines. Our reinforced leadership resulted from a 6.9% year-over-year increase in our mobile access base that led us to register our largest ever number of mobile customers, 83.9 million. The growth came mainly from our postpaid base that expanded 10.6% year-over-year, while our prepaid lines grew for the second year in a row, up 1.9% versus 2020. On the right-hand side of this slide, we highlight some interesting aspects that underscore our solid operating mobile performance in 2021. Even though we increased hybrid plans price in the third quarter '21, our fourth quarter postpaid revenue remained quite stable at a low 1.3% per month figure, up only 0.1% versus the previous quarter. The hybrid price increase not only helped in enlarging our positive revenue performance, but also prompted part of our users to upgrade their plans to our pure Postpaid offers as seen by 87% year-over-year increase in Hybrid to pure Postpaid upsells in the quarter. Moreover, our premium value proposition of innovative offers aligned with customers' demand for connectivity and digital solutions, as perceived by 1.3 times increase of data consumption in 2021, allowed us to register into fourth quarter a number of Postpaid net adds coming from other operators that was three times higher than in the fourth quarter of the previous year.

Moving to Slide 7. In the first few months of 2022, both ANATEL and CADE approved the transaction involving the acquisition of assets for Oi's mobile business by Vivo, TIM and Claro. This will be a transformation operation for the Brazilian telecommunications sector, allowing for an overall improvement of quality for mobile users, especially those coming from Oi's network while enabling the creation of a fiber infrastructure player. The closing of the transaction is expected to happen over the next month, with Vivo committing to pay approximately BRL5.5 billion fully funded with our own cash to acquire a portion of access comprised of 43 megahertz of spectrum, around 10.5 million mobile customers and 2,700 sites. Over the coming weeks, we will keep you posted on the next steps and synergies we plan to capture from this deal.

On Slide 8, you can see that our core fixed revenues expansions, which stood at 13.7% year-over-year in the fourth-quarter '21, allowed our total wireline revenues to grow for the second consecutive quarter at a 0.8% pace, consolidating the turnaround of our business that represents 1/3 of our top-line. All three components of our core fixed

revenues grew at a double-digit rate in the fourth-quarter '21. FTTH expanded 10.4% year-over-year, IPTV was up 30.3%, while data ICT and digital services increased 19.5%. As a result, the revenues stemming from our core fixed products already represent over 70% of our total fixed revenues, 8 percentage points above the fourth quarter '20's figure. We're certain this ongoing shift in mix towards higher quality and value-added products will be the driving force behind accelerated revenue growth rates to be achieved over the next periods.

Going to Slide 9, you will see that the revenues coming from our fiber to the home network closed fourth-quarter '21 at over BRL1.5 billion, representing 13.3% of the total revenues Vivo registered in the period, after expanding at an average base of 35.8% for the year from 2019 to 2021. Our FTTH broadband continues to excel as the demand for high-speed connectivity remains as strong as ever. In fact, the fourth-quarter '21, the average speed of our FTTH customers was 188 megabits per second, an increase of 77% year-over-year as (inaudible) that are currently coming from customers buying plans with speeds at least 300 megabits per second. Moreover, fiber adoption should be further sped up by the recent launch of (inaudible) version FTTH plus mobile postpaid plan, Vivo Total, that offers attractive benefits to clients that want to enjoy the best, most reliable data experience in and out of their homes. As a result, we are poised to continue posting strong revenue performance in fiber, which will be further enhanced by the price-up that we plan to implement during the year for our FTTH customer base.

On Slide 10, we show the evolution of our fiber home-pass and home connected numbers, keeping Vivo on track to hit the 2024 target set for the FTTH business. We closed 2021 with 19.6 million homes passed with fiber by growing our network to 3.9 million new premises, increasing our footprint 25% year-over-year. This robust expansion allowed us to register our highest ever number of FTTH net adds over the course of the year, with 1.2 million new users added to our base, which now composed of 4.6 million access growing 36.4% year-over-year. As the year-over-year expansion of our user base exceeded the footprint growth in 2021, we were able to accelerate our FTTH take-up rates by 2 percentage points to 23.5%. We intend to reach by the end of 2024, a take-up rate of around 30% over the 29 million home passed, we plan to have by then, thus leading us to set up targets of almost doubling our FTT user base in three years. The footprint in user-base growth will come not only through our organic efforts which we'll continue to command our fiber deployment, but also (inaudible) Brazil, which should see an expansion of some 4 million homes passed over the 2022 to 2024 period. This will lead us and our (inaudible) vehicle to triple the number of HVs it had by the end of 2021, allowing people to tap into new markets outside the state of Sao Paulo.

Moving to Slide 11. Last quarter for the first time, we disclosed information about our B2B digital services that have been one of the main drivers behind our improved top-line performance, now with updated numbers and even additional information on Cloud and digital solutions. We ended 2021 with BRL2.1 billion in revenues coming from the sale of services, including in our digital B2B portfolio that is composed by Cybersecurity Cloud, IoT plus messaging and digital solutions plus equipment. This amount grew 46% year-over-year, representing almost 5% of our annual revenue base. A significant part of the growth came from the sale of Cloud services. We registered around BRL600 million in Cloud revenues during 2021, which nearly doubled in size on a yearly basis. We provide

our B2B customers with solutions from the main players in the cloud service landscapes such as Microsoft, Amazon, Google, and Oracle. In addition, in 2021, we had our revenue coming from Digital Solutions and equipment growing 29% throughout the year, reaching BRL780 million, (inaudible) on our large range of suppliers that fully meet data demands of companies of all sizes, enabling us to be a one-stop shop for those investing in the modernization and digitalization of their businesses.

Now moving to Slide 12. Here, we update you on some of the initiatives we have been developing to address the digital service opportunity on the B2C side. I start here with our entertainment vertical in which we partner with main OTTs available in the market such as Netflix, Disney Plus, Amazon Prime Video, Spotify, and Tidal to complement Vivo's customer experience and access to content. We ended 2021 with 1.2 million subscriptions through Vivo of OTT content platforms, growing the number of access by 79% year-over-year. This includes both bundled subscriptions through our Vivo Selfie and FTTH plans, and standalone purchases. In health and wellness, we just completed the rebranding of our Vivo Medita??o app, which is now called ATMA. With low investment in marketing, we were able to achieve 150,000 installations of the app exclusively by leveraging Vivo's customer base. We plan to go further and rebranding was the first step to accelerate the adoption of this app. In the financial services, our 100% digital personal loan service, VIVO MONEY, broke the mark of BRL30 million in credit conceded to our mobile customers, with originations and number of contracts seeing strong uptakes year-over-year as we include part of our prepaid users within our targeting base.

In education, we took another significant step in our partnership with Anima (inaudible) by signing that contract for the constitution of a joint venture to provide a live long learning platform with digital educational courses focused on employability contributes to the development and improvement of the living conditions of its students.

On Slide 13, we present some highlights regarding our proactive approach to ESG related topics. On the environmental front, we added 2021 with over 9 tons of electronic waste collected at our point of sales, contributing to the safe disposal of those products. Moreover, we ended up the year with 21 active renewable energy power plants on track to achieve the goal of 83 plants by the end of 2032, helping us reduce 19% the number of CO2 direct emissions on an early basis. Regarding diversity, we continue to move forward in increasing their representation of multiple groups within our workforce. By the end of 2021, 29% of leadership was composed of women. Looking more broadly, of our total workforce, 30% of our employees are black, while 4% are also declared to be LGBTI Plus. We also played an important role within Brazilian society, not only by providing connectivity and stimulating the digitalization of the country, but also by sponsoring education through our (inaudible) Telefonica Vivo, which benefited 2.7 million people in 2021 with investments of more than BRL64 million.

The efforts we gave towards growing sustainably, and with great emphasis on enhancing social equality through representation and education, yielded us with a series of acknowledgments both on local and global basis. Locally inventory, we ranked as the third company with the highest score among all ESG applicants, while also being the only telco company chosen to be part of the newly-created Great Place To Work index for our segment. In addition, we became part of Bloomberg Global Gender-Equality Index, while

being the Best Telco in LatAm, and participating for the second year in a row in the S&P Global Sustainability Yearbook.

Now, I hand it over to David to take us through the financial highlights of the quarter.

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

Thank you, Christian, and good morning, everyone. On Slide 14, you can see that we were able to maintain our cost under control in the fourth quarter with a 4% year-over-year growth during a period with a double-digit inflation. Costs with service on goods sold that are enablers for many of the products and solutions we offer grew 15.9% year-over-year. The increase of this portion of our OpEx, which already represent 36% of our total expenditure, is impacted by the fact that we have been able to accelerate our revenues coming from digital services and equipment thus, enhancing the monetization of our connectivity platforms. On the other hand, our cost of operations which represent 64% of our OpEx in the fourth quarter of 2021 saw a year-over-year decrease of 1.6%.

Here, we have optimized customer-related expenses, such as call centers, collection and bad debt, relying on the benefit of the ongoing digitalization of processes and points of contact. These efficiencies helped us to more than offset higher cost with personal infrastructure and commercialization that are being impacted by high inflation, increased network usage, and successful commercial activity.

Moving to Slide 15, here you can see that in the fourth quarter, we posted a 1.2% year-over-year increase of EBITDA to BRL4.9 billion achieving a 42.9% margin supported by our core revenue's expansion and by our efficient cost control. On an annual basis, our recorded EBITDA grew 1.7% year-over-year to BRL18 billion with a margin of 40.9%.

Now going to Slide 16. In the fourth quarter, we invested BRL2.3 billion excluding licenses. These represent 20.3% of the revenues registered in the period, taking our total investment for the year to BRL8.7 billion or 19.7% of sales. Our CapEx was mainly directed to growth and transformation projects supporting our FTTH footprint and customer-based expansions, our superior mobile quality and capacity, and the modernization and optimization of our IT systems and platforms. In addition, in November 2021, we participated in the auction for the acquisition of 5G frequencies. We acquired blocks on the 2.3, 3.5, and 26 gigahertz frequencies that will support the development of our 5G network on a nationwide basis. Apart from the coverage obligation set by Anatel, which will be accounted as business as usual CapEx over the next few years, in the fourth quarter, we booked an extraordinary CapEx of around BRL4.5 billion composed of BRL900 million related to the reserve price paid for the licenses, that will be paid in the next 20 years and BRL3.6 billion attached to the contribution to be made to the entities that will be responsible for the implementation of certain goals defined by the regulator and to be disbursed between 2022 and '24. We will certainly bring relevant opportunities going forward and as mobile leaders, Vivo will be on the forefront when it comes to the provision of services and solutions enabled by this technology.

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Moving now to Slide 17. In 2021, our net income grew 30.6% year-over-year to BRL6.2 billion. Apart from the improved operations results, the bottom line was positively impacted by the recognition of our tax assets in the amount of BRL1.4 billion, arising from our Supreme Court decision that defined unconstitutional the incidence of income taxes over monetary updates received from past tax result. Our robust net income allowed us to propose a shareholder remuneration of BRL6.3 billion by means of dividends and interest on capital distribution based on 2021 results. This led to dividends per share of BRL3.7 with a 7.7% dividend yield. In addition, during 2021, we invested almost BRL500 million to buy back our own shares.

By the end of the year, we had 14 million shares in treasury, which were canceled in February 2022 as approved by our Board of Directors. Considering the value that we disbursed to acquire our own shares, our dividend plus share buyback yield reached 8.4%, reinforcing our strong shareholder remuneration profile between the telecom landscape. To help maintain the high level of returns to our shareholders yesterday, we announced the launch of our new share buyback program for the next 12 months.

Now turning to Slide 18. In 2021, we generated BRL7.4 billion of free cash flow after leases, or 16.9% of our net revenue, surpassing our net income results by BRL1.2 billion. As a result, we closed the year with a free cash flow yield of 9.2% putting us in a very strong position to fund the acquisition of Oi's mobile assets, invest in 5G, and step up shareholders' remuneration. As such, even after booking BRL4.5 billion in debt with Anatel related to the acquisition of frequencies, we closed the deal with a net cash position ex-leases of BRL500 million.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. This floor is now open for questions. (Operator Instructions) Questions will be taken in the order they are received. We do ask that when you pose your question, that you pick up your headset to provide optimum sound quality. Please hold. Our first question comes from Bernardo Goodman (Foreign Language).

Q - Analyst

(Technical Difficulty) everyone. Thanks for taking my question. I have two questions here. The first one about the deal with Oi. What can we expect in terms of synergies now with the new approval? I was wondering if you guys could give us some color in terms of numbers and speed of capturing these synergies. And my second question is related to network sharing with TIM. How is the project evolving, and what we can expect in terms of OpEx and CapEx avoidance this year? Thanks.

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

Bernardo, that's Christian. I will try to answer both of them, okay? So on the deal with Oi, I will -- we need to wait for the closing of the transaction to give you more color on the synergies. What I can try to anticipate is first, as you know, we have a very good track record in executing and capturing the synergies. Now, we did that before with the acquisition of Vivo and also with the same pace with the acquisition of GVT. What we believe here, the synergy has no -- most of them will come from cost and CapEx optimization, (inaudible) that what we have already not only into channels, but also in the network.

Now in the channels, we believe that we could serve these customers in a more cost efficient way, especially because we have deployed and developed digital channels in a much more advanced way than they currently have with their current provider and the network, considering that most of their clients that we are capturing from this transaction will be in the Northeast region, will have the largest and better quality internet mobile network in the region. So we could easily offer these customers a much better service in a very cost and CapEx efficient way.

If you add to that, that you're going to have also more frequency. The optimization of the usage of this frequency is blended together with the frequency that we already have, will enable us to offer a very good quality and services in an efficient way, not only in the regions where we capture the customers, but also in the whole national presence because of course, as you know, there's portability of some customers that will come to Vivo anyway. So tower management is another way that we could also capture some synergies here, and the CapEx avoidance especially as far as I said before, of the usage of more frequency. So that's more or less what we believe in timing, as the synergy should -- as integration should happen very rapidly, in the short period. We've been getting prepared to do so. I think we could unlock part of the synergies already in 2022, and as soon as we get it closed, we could give you more color on that. You are getting moved to the second question, Bernardo, the second question.

Q - Analyst

Yes, please. Question is related to the network sharing with TIM.

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

Yes. So as you know, there are different fronts in the rent sharing with TIM. The 4G coverage that was the first one that may be a very important one that could expand the 4G in places where they are present that we're not and the same with them, they expand the coverage in places where we are present and they are not. We did that already in 716 cities. Now, approximately half of it were operators. So I now have 316 new cities where I have covered that I do not have and DMS coverage in 36 cities that they didn't have in the past. That's the first, and that it will be well and we may see more cities in the future.

In the single grid model that is when cities with less than 30,000 inhabitants that would offer the full, we would illuminate the full frequency for both operators in the same tower. We already did that in 50 cities, 25 each. That's a pilot. It's more complex than the first

one because you're going to start offering something from your infrastructure to the other operator's customers. We did that. The pilot went well and we are now mapping out the next steps. The potential that we see here is to implement in 1,600 cities now and we may do 25% of it this year. But again, we want to assure that the quality and experience of our customers and TIM's customers are the same when we do this rollout. And the third front is the 2G network shutdown. There is a lot of cost efficiency here and also the reforming of the frequencies that can be used to other technologies.

We expect to start it in 2022. It was a little bit delayed because we had some like systems developments to do in IT in both companies to make it happen. And here the potential is also very high. We could shut out all the 2G network in a few years. We're not giving a specific number, but in boe -- in the (inaudible) front, what we're doing here is either getting coverage that we didn't have or combining CapEx savings, with CapEx avoidance. That's what I can share with you right now.

Q - Analyst

Very clear, Christian. Thanks a lot.

Operator

Our next question comes from Marcelo Santos, JPMorgan.

Q - Marcelo Santos {BIO 3999459 <GO>}

Hi. Good morning, Christian. Good morning, Vivo team. I have two questions. The first, if you could comment a bit on the outlook for the three mobile services in the year of 2022, and how the competitive environment is shaping. And the second question is regarding, there was some deceleration in the fixed core revenues, including Fiber-to-the-home and IPTV when you compare the third quarter growth versus the fourth quarter growth. Would you please elaborate a bit more on that and if that's something sustainable or not? Thank you.

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

Marcelo, thank you for the question. The first one, the competitive environment. I think competition is still very strong in our market, it's a very competitive market. I don't think it changed anything with the acquisition, because as you know, the three players, they're being more advanced in the corporate and technology deployment, especially in 4G. So competition is still there. It's more rationalized self-services. Now, we see -- now we're trying to move price up as we did in the third quarter of last year in the hybrid and in the pure postpaid. Some other bridges follow us, maybe not in the same pace, but in a way, in more rational approach. In the prepaid, it remains more or less the same. We're trying to move either price up or trying to upgrade customers to biweekly offers with more data and with more (inaudible) or migrating them to hybrid.

As you could see we have a very positive number also in the hybrid migration. So I believe that's the trend. I think there's inflation, we should be increasing prices as we did and we did that in the mobile and we will do that in the FTTH as well. Going to the fixed question,

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the first good thing is that our fixed business is doing pretty well. If you consider the growth, that was 0.8% combined is the second quarter in a row that we're increasing the fixed revenue. As I said in the beginning of this presentation today, what we call non-core, that includes fixed ADSL and DTH represent less than 10% of the total revenue of the company. It is still decreasing 20%, but it's not very relevant when you consider the whole scenario of the fixed. In the fixed FTTH, in the previous quarter, we had much more aggressive in promotions. In this last quarter we were not. So we keep prices and we're trying to drive customers to 300 and 600 megabits with a price point that is higher than the price point of entry offers from our competitors.

Some of them local competitors, they are being aggressive in 100 and 200 megabits. We continue to grow if that is important to highlight the absolute number of revenues in FTTH in a very strong percentage. We are like 31% growth of FTTH and we're expanding to more and more cities.

So here, our objective is to keep absolute numbers growing. Of course, we want to get as much customers as we can. We want to control churn so the quality of the customer that we're acquiring is very important and then so we are measuring ourselves in the lifetime value of the customers, blending the mobile with the fixed and also Vivo Total that is our offer now (inaudible) offer. Plus, the digital service that we're putting together with FTTH, in this case, the video -- the OTTs videos that are being very successfully received by our customers is the strategy going forward. So continuing with the strategy, growing absolute numbers, expanding to more cities, and reaching the number that we said to the year, that net 29 million home passed in 2024 and a take-up of 30%.

Q - Marcelo Santos {BIO 3999459 <GO>}

Perfect. Thank you very much, Chris.

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

Thank you, Marcelo.

Operator

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

Q - Freddie Mendes

Hello. Good morning, everyone. I have two questions as well. I mean the first one I think is a follow up from the first question about Oi. Tell me -- you'd be great if you could at least give us a ranking. For example, in which line, you expect to be more relevant in terms of synergy for example. First, I think that we can get there for them being (inaudible) and impact for moving from 43 players, very hard to calculate. So much as you can but if you may, it'd be great, with the hiking partners to the lowest as I think it will help a lot. And then the second question about the FTTH. You reached 20 million as of 4Q and expect to reach 29 million by 2024. Like give or take, like 3 million (inaudible) that year, less than what you added in 2021. And when I look at the homes connected, we saw a slowdown throughout the year, obviously, Q4 a lot, but a slowdown to the beginning of the year. I

think the point here is, is it fair to say that the highest growth stage of the FTTH happened in 2021 or do you think there is room to continue to boost growth -- to accelerate growth for the next years? Thank you.

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

Fred, this is Christian. As I replied before, no, it's mostly in costs and CapEx avoidance. I think the competitive environment, as you know, we had to follow it very closely. It doesn't change that much. We're talking here, most of customers in prepaid and low postpaid or hybrid. I think we've been very competitive in the last year, the three large players. Considering that in the case of Oi, the deployment of 4Q was already very limited and have the 700 megahertz frequency. So I don't think in revenues it would be the line that I would highlight here, and because of the possibility of being less competitive. I think the environment will continue to be very competitive. And again, here there's also the appearance of a stronger fiber player. So if you consider the market as a whole, I don't see revenues.

As I said before, I'm thinking costs and CapEx avoidance. In costs, because if you take 10 - around 10 million customers, most of them are in the northeast, where we have the lowest market share, and we have the highest -- one of the largest Internet mobile network deployed. So we have capacity to receive all these customers. We have channel, we have stores in all the places that we are (inaudible) to the customers. And we have digital channels to serve these customers in a most efficient way. So I think that's the line that I would highlight for you, and avoid the use of CapEx more related of having more frequencies that we bought, not only the ones in the 43 megahertz that we acquired for Oi, but also the ones that we're acquiring rowing the 5G auction. Going to the FTTH -- can I go to the FTTH?

Q - Freddie Mendes

Perfect. Thank you, Christian, for the second question.

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

Now let's go to the FTTH. I think we'll have to see the big picture of the market, who is the winner in a war like losing momentum in the market. I see Vivo gaining momentum. Now, I think there are -- I'm not measuring ourselves by the number of cities and number of homes that we deployed every year, it's much more our ability to retain customers in our customer base and to drive revenues up. That's our objective, and I think we've been pretty successful doing that. So the number of cities, I think when we enter the cities that we're going to enter organically or FiBrasil will be very well selected. We want to be the winners in this city that we enter, and I think that's what we are gaining and what we are getting in the last quarters. I think we are getting much stronger than competition in the FTTH arena. And the idea is to continue doing so.

The number, the 29 million, is a very good number of home pass in 2024. If you drive our customer base from 4.6 today to the number that I told before that's double it in 2024, that's also a very strong positive number. And what I want to measure here is the other thing. First, is the ability for me not only to get these customers, but I must get these

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customers in a very good price point, and that's driving ARPU up with more speed and more digital services together with the FTTH offer. And secondly, as I said before, is reducing churn not only the FTTH, but reducing churn of the mobile customers. We're number one in number of customers in postpaid and prepaid. And I think with fiber, we are in a unique position to be the number one blending fiber and mobile together. So I think that's Vivo Total. And again with the digital services on top of it, I know there may be -- there is some skepticism in our ability to drive digital services up. I'm showing some numbers in the B2B. I will show more numbers in the B2C very soon.

Today just opening up the 1.2 subscriptions that I have as for OTT videos, this number is growing, net add is growing every single month. And I'll also show some numbers very soon in education, in marketplace, in health, as soon as we get a relevant figure to share with you guys. So that's that we have for the expansion.

Q - Freddie Mendes

Perfect, Christian. Super-clear. And if I may, just a follow-up. When you enter in a new city, usually the ARPU is lower which makes a lot of sense obviously. And then just wanted to know, how long does it take for you to bring this ARPU to what you have in your portfolio? I mean, you look at (inaudible) also have 30% of market share, want to have 40% market share. Or after three-four years, you look on an individual basis, what (inaudible) to bring this ARPU up for the new cities? Thank you.

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

Yeah. The cities are different and the ARPU is also changing for the new cities that we enter and the competitiveness and also the speed that we are able to sell. I believe that the idea here, as I said before, is we're driving speed up of the -- customers are much more in 300-600 they were before. And we are also able to add digital services in most of our sales, that's also very positive. And going forward for this year, I've seen the other weapon that we have is the conversion offering. People (inaudible) now is 100% ready to be offered nationwide. And I believe that's also we're going to trying to combine ARPU up. So that's where we see the ability to do more now.

And again, we are trying to deploy also some more connected home devices at every place that we enter. So we want to be also positioned as a technology provider, not only with the Fiber, but also with the connected homes. So selling devices and also selling technical support to this customer. So there are many ideas that I believe we're going to drive the total ARPU up. But again, I will see much more customer ARPU because obviously we'll more combine the combination of fixed digital and mobile.

Q - Freddie Mendes

Perfect. Super clear. Thank you very much.

Operator

Our next question comes from Victor Tomita, Goldman Sachs.

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Q - Vitor Tomita {BIO 19238819 <GO>}

Hello, good morning, Christian. Good morning, all. And thanks for taking our questions. Apologies, again, if these are already answered since I had a few connection issues on my side during the beginning of the call. So first question would be, given that you have been able to increase shareholder distributions above historical levels, even with IT investments and the Oi acquisition coming in, could you give us some more color on how you are thinking of capital allocation when it comes to deciding between increasing payouts versus potential opportunities to do further CapEx, further organic fiber rollout, further M&A or things like that? And our second question would be a quick follow-up on the B2C Digital ecosystem. How quickly do you believe you would be able to roll out offering like Vivo money to users migrated from Oi and who would maybe have a good speed with the service. And would you consider any smaller M&A deals, for example, with such companies in order to accelerate the digital front? Thank you.

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

Vitor, I will start with the second question, then may pass it to David for the first question. Yes, of course, the Oi customers are targets for our digital services. We need to wait for the closing and then after the closing there is the period the 12 month that will migrate customers from their base to our base. So it's -- there is no rush at that moment to offer the digital services to these customers, but of course, they're going to contribute. Now, we're talking here that we already have in our mobile customer base, more than 83 million customers. Also, we already have a lot (inaudible) for digital services.

And then if you add the fix, we're talking about almost 100 million access with the possibility to add a digital service. So the idea here is to deploy in the different areas that I talked before. We're very positive about the education, we just signed a JV with Anima and we are still waiting for the approval of CADE and that's the target here is prepaid hybrid. And of course, the customers coming from Oi will be totally addressable in this type of service, People Money as well. We said -- we gave a number here of BRL30 million in loans already given to customers, and once we have also the Oi's customers, we can address the credit records we're going to be able to offer to them. Now, we just started offering to our prepaid customers that we didn't do the best. We started doing that in the top of the prepaid, where we have more information and more data, being successful doing so.

And the same with people pay, health and the other areas there we're deploying. We're all -- through Vida, we've been investing in some startups. We did that with (inaudible) that was later sold to a new bank. We did that with Gabriel, that is an artificial intelligence company, a firm that focuses on security, that could add to our value proposition for the connected home assets discussed before. We invested in IT services and in educational platform. But now, as we're more precisely to your question, we may consider another vehicle to invest more or even acquire a company to believe it fits with the portfolio of digital ecosystem that we see both in B2C as in B2B. So it's not out of consideration. In B2B, we count on Telefonica's tech, that's three companies that Telefonica launched in Spain and then we launched as well here in Brazil focused on B2B, Cloud, IoT and Cybersecurity.

And through this vehicle, we can also access M&A. So M&A is not out of the question, but it needs to have the right fit or we could consider have a minor investment through Vida off-road vehicle that we may deploy for Brazil, okay? So that's the -- in order to have more questions for the second, otherwise, I hand it over to David for the first one in capital structure.

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

Hi, Vitor. This is David. Thank you for the question. So at the end of 2021, we have BRL6.5 billion cash and this allowed us to acquire Oi's mobile assets without impacting our future, particularly around shareholder remuneration. We look back to the last three, four years, so we have our payout above 100%. Now, you mentioned on this, we do not see any reason why this would change. On top of that, and particularly last year, we have been very active on the share buyback program. Now, so we acquired BRL500 million shares in the last 12 months. And now we are planning to continue very active, and yesterday we also launched a new annual program. And on top of that, we are canceling 400 million shares that we acquired in the past. We show that we are very active on this front.

So in summary, I think shareholder remuneration has been our priority for Vivo and this will continue also in the future.

Q - Vitor Tomita {BIO 19238819 <GO>}

Very clear. Thank you very much.

Operator

Our next question comes from Arturo Langa from Itau.

Q - Arturo Langa {BIO 18675469 <GO>}

Hi. Good morning, everyone, and thank you for taking my question. I just have one question and it's more of a housekeeping item. But for related to 5G, for 2022, I believe you have around BRL2.7 billion of obligations. I just -- my question is, basically, how does that tie into CapEx? You have run the company at around 20% CapEx over sales over the past years. Should we think of that obligation on top of the normal CapEx commitments? I know you mentioned that we should consider as ongoing business CapEx, but just wondering how we should think specifically about 2022 CapEx. Should it be a little bit higher than usual?

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

Hi, Arturo. This is David. Let me answer the question and then also Christian, if he wants to complement. So in 2021, we booked a BRL4.5 billion, let's say one-off CapEx, took over to price for the frequencies and also the obligation that we have, that has to do mainly about creating a private network, also to connecting (inaudible), and also to connect the schools now. So and also this 4.5 and 3.6, how to do with those obligations. So this obligation will not impact our future CapEx because it's already booked and it's already considered as a financial debt. So this will not prevent neither our CapEx in the future, neither our debt because it's already considered. So the rest of obligation that we have, have to do more

with business as usual. And so, we have an envelope in line with what we had over the last couple of years and this is what we will have to be able to continue deploying fiber and also to accelerate the 5G. So at the end of day, we're talking about moving investment from 5 -- from 4G -- quality on 4G that we had in the past, now we're going to shift into 5G, but we're not expecting any of the channel investment because of this.

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

So the 2.7 if you're looking on the slide, it was already registered, so as we said and it's not part of the annual CapEx of this year, okay? That's different. Other obligations that are more related to business because this obligation that we highlighted here are the ones that are the EAF, that is (inaudible) entity that we need to put funds to clean up the spectrum. There is also the building of the government's private network and there is also the Fiber network for Amazon. And that these are the numbers that we just said that it's not part of our annual CapEx. It's more of a licensed commitment that we (inaudible) last year, all the rest related of the deployment of the fiber obligation of coverage. For instance, we are covering for -- by the end of July, we need to cover all capitals in Brazil, all state capitals and we need to put one site for 100,000 (inaudible). This as part of our current CapEx. It's not in the BRL2.7 billion, but it's part of the total envelope that we have for the year.

Q - Arturo Langa {BIO 18675469 <GO>}

I see. Thanks for clearing that up. That was very clear. Thank you.

Operator

Our next question comes from Victor Ricciuti, Credit Suisse.

Q - Victor Ricciuti

Good morning, everyone. Thank you for taking my questions. I have two from our side. The first one is a follow-up on the B2C initiative. We see that you are investing in the consolidation of the (inaudible), providing clients more integrated services, both in mobile and fixed. But ARPU both in fixed and mobile are decreasing. How should we see monetization of such initiatives going forward? And the second one is regarding FiBrasil. Are you seeing good adherence from Internet providers and what type of clients do you see during these initiatives? Thank you.

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

Victor, the digital services question. No -- I think as I said before, no, we are starting with the sale of the services. What we highlighted here was the video, the entertainment vertical, that is one of the verticals that we're going to put focus. This one is the one more deployed. And, yes, we see ARPU impact of selling fiber with Netflix Fiber if Amazon Prime or with even Vivo Selfie, our postpaid that we put together, Spotify and many others. So here is the combination of -- there is an ARPU increase due to the sale of the digital service, but there is also some in the case of the mobile, a mix of customers, so we're getting more -- this quarter we got more hybrid than pure postpaid. So the mix of the ARPU is more in the hybrid side, so the total ARPU is a little bit lower. And also we're

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being able to capture a lot of new prepaid customers. And some of them, the entry point is in a lower offer. So that also can impact our total ARPU. But of course, the digital services will; be able to help us in the near future to compensate it or even to increase the ARPU going forward. So we're doing that and we're betting on that. So I don't have a lot of other examples in other verticals to give you a real sense of the contribution of these services in the ARPU rather than the ones in the video entertainment that I told you that we have 1.2 million subscribers today. So that's a good thing.

In the B2B, on the other hand, we just gave more color on how the digital services are contributing not only to the ARPU, but most importantly to the total revenue. We are giving like a number that we didn't give before, more than BRL2 billion per year in revenues coming from digital services. The same nature of the B2C because you sell connectivity and on top of connectivity because you have the channel, because you have the relationship, we can sell Cloud, we can sell Cybersecurity, we sell IoT. And that's growing 46% year-over-year. So the same strategy we're going to drive to the B2C, different services, different approach, but we believe we are going to be as successful as we being in the B2B.

The second question, FiBrasil, I cannot answer about to FiBrasil. I think that's the question. There's going be more focus on any call that we may have with them directly. What I can say, is out of the 29 million home base that we're going to deploy up to 2024, 6 million will come from FiBrasil. And the partnership is going so well and we -- that's what I can answer. I cannot answer about the commercial activity because that would be not correct for me to share this information.

Q - Victor Ricciuti

Okay. That's perfect. Thank you very much.

Operator

Our next question comes from Felipe Cheng, Santander.

Q - Felipe Cheng {BIO 20606863 <GO>}

Good morning, everyone. Thank you for taking my questions. Two questions on my side. The first one is regarding the OpEx line of other operating income, right, which came in at BRL547 million positive this quarter. So this line has shown a lot of volatility right over the past few quarters, but the 4Q '21 level seems to be unusually high. So I just wanted to understand if there was any non-recurring elements this quarter specifically or if we should expect this to continue running at a similar level in the first half of 2022, for example. And my second question is regarding tax credit, right, of BRL1.4 billion. Just wanted to understand what is your expectations, right, regarding timing to eventually consume these credits? Thank you very much.

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

Hi, Felipe. This is David. Thank you for your question. So regarding the other revenues and costs, I mean it's important I mean to point out that this line has been positive in almost all

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the quarters for the last two years now. Meaning that it includes concept that at the end of the day we consider that are part of the business now. I mean it's true that the last quarter we have a slight increase compared to the previous, but at the end of the day, they have always been positive. And if we look backwards, the positive evolution over time is mainly due to the benefits from contractual science, the sales from used copper which I mean recently it has been accelerating. And also we have benefits from the exchange rates of the copper which is in dollars. And we also have some tax recovery that also are part of our business as usual, and also it's important the continued reduction of CV land labor contingency that the claims have been reduced year-over-year now. So I mean we hope it's difficult to predict, I mean as you say, there is a big volatility, but I can say that all the element that we have included here, we could consider and correct.

And regarding the second question which has to do with the positive effects we have of BRL1.4 billion recorded this quarter. Look, if we look to the carry forward losses that we have as of the end of the year, we have BRL1.3 plus this BRL1.4. So in total, we're talking about BRL2.7 billion of taxes carry forward that will be compensated as lower tax payments. And we expect this to last until 2025, '26. So there are still four years. At those BRL2.4 billion and here we're talking about -- this is not basis, it's pure cash that will be compensated in the next four or five years.

Q - Felipe Cheng {BIO 20606863 <GO>}

Perfect. Very clear. Thank you, David.

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

Thank you, Felipe.

Operator

Thank you. We have now questions from the webcast. The first one comes from Emiliano Flores from Scotiabank. Can you give additional color on the tax asset recognition? Should we expect something similar for 2022? Thank you.

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

Hi, Emiliano. This is David Melcon. So, I mean we cannot predict if there is going to be any positive effect in 2022. So we can only count what we have already registered. So that is I cannot comment here as we have no visibility of any -- we do not foresee any other similar concept as we have recognized 100% for this specific content. We cannot predict if there could be any other (inaudible) here in Brazil, that is something that we will need to see in 2022.

Operator

Our next question also from the webcast, it comes from Phani Kumar Varma, HSBC. With high cash outflow in 2022 due to Oi acquisition and 5G CapEx obligation, would the cash flow impact the dividend distribution in 2022? Can we expect a similar payout ratio in 2022 from 2021?

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

Hi, Phani. This is David. Look, as I said before, so at the end of 2021, we have more than BRL6 billion cash in our balance sheet that will be used to pay the acquisition of Oi Mobile. So this will not impact our ability to continue paying dividends. So the amount of the dividend to be paid in the future will be more linked to the net income. And the payout ratio, which is what you're asking, we are -- we do not see any reason why this should be different than has already been in the past, which is around 100% now. But I mean we're not giving guidance, but this is what has been in the past that we do not foresee any change. Plus the payback, which is also important as this will help also to have an attractive shareholder remuneration on top of the net income that we will have in 2022.

Operator

Also from Phani. What is the expectation from the CapEx as 5G deployment has started? Is the CapEx intensity likely to stay at similar levels as 2020-2021?

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

Hi, Phani. This is Christian. Yes, we could expect the same level of CapEx. Now, we've been having CapEx from BRL7.9 billion to BRL8.7 -- BRL8.8 billion in the last three years. We envisioned CapEx to be around these figures. Although we're going to spend more in the 5G deployments as you correctly said, we are avoiding CapEx in other technologies. And also we are looking for alternative models, not only rent sharing, but also in the fiber that can compensate some CapEx that we can dedicate to mobile using FiBrasil neutral network that avoid CapEx, create some OpEx, but we could be compensated in operating cash flow. So yes, keeping the same level.

Operator

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

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

So thank you all for participating in our call. Thank you for also following Vivo along this last year. It was a very positive year as you could see in the results presented today. And moreover, it was an important year where we prepare our future with our neutral network and fiber network into Brazil, the successful results over 5G and most recently, also the successful conclusion before the closing of the Oi deal. Also, we start giving some hints of our digital strategy going forward in the B2B with real numbers and growth. And in the B2C, start giving more color in some of the verticals that we are planning for the future. So any other doubt that you may have, please follow on with our team. And thank you again for participating.

Operator

Thank you. This concludes today's Telefonica Brasil, 4Q '21 results conference call. You may disconnect your lines. Have a nice day.

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