

## Q1 2021 Earnings Call

### Company Participants

- Adrian Calaza
- Alberto Mario Griselli
- Alejandro Gallostra, Vice President
- Pietro Labriola
- Unidentified Speaker

### Other Participants

- Analyst
- Cristian Faria
- Leonardo Olmos, CFA, Director
- Unidentified Participant

### Presentation

#### Operator

Good morning, ladies and gentlemen, welcome to TIM SA 2021 First Quarter Results Conference Call. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. There will be a replay for this call on the company's website. After TIM S.A remarks are completed, there will be a question and answer session for participants. At that time, further instructions will be given. We highlight that statements that may be made regarding the prospects, projections and goals of TIM SA constitute the beliefs and assumptions of the Company's Board of Executive Officers. Future considerations are not performance warranties. They involve risks, uncertainties and assumptions as they refer to events that may or may not occur. Investors should understand that internal and external factors to TIM SA may affect their performance and lead to different results than those planned. (Operator Instructions). Now I will turn the conference over to the CEO, Mr. Pietro Labriola so he can present the main messages for the first quarter of 2021. Please Mr. Pietro, you may proceed.

#### Pietro Labriola {BIO 19448607 <GO>}

Good morning everyone and thanks for attending our results conference call. We started the year with the high hopes that the worst of the pandemic was behind us. Unfortunately, already in February the second wave started to [ph] some Brazilian cities and spread more broadly during March. Of course, this time we were more prepared to sustain the impact from more strict measures to control the spread of the virus. Also the farthest cities implemented those measures in different moments of the quarter made a

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difference in our, we were affected. In all the consequences of the second wave in our business were smaller than the first wave a year ago. Considering these we are not altering materially any part of our strategic plan disclosed to you in our TIM Brazil Day. Neither the project, nor the targets are going to be changed. We are confirming our entire guidance.

The first quarter was marked by excellent execution. We accelerated our recovery started in the second half of the last year. And both revenues and EBITDA are growing more in our recent results. We closed the quarter with service revenue growing more than 3% year-over-year. EBITDA came in very solid up for [ph]4.5% versus last year. It's some more than BRL2 billion representing a margin of almost 47%. As you probably saw last night, we reach an agreement with AHS completing the deal for our FiberCo, a great deal for both companies.

As I said, our customer platform plan is moving forward and we are much closer to announce new partnerships for distance learning education and digital wallet. On the technology front, we reached more than 4,000 cities covered with 4G and more than 120 Skys in the state coverage project. We also sign the agreement with the vendors for our Journey to Cloud project these achievements show our commitment to improve the quality of our service, implement more cost-efficient solution, and last, generate social and environmental positive impact as we detail in our ESG plan. Last but not least, this quarter, TIM Live was appointed as the best broadband service in Brazil.

Turning our revenue acceleration, we show positive contribution coming from mobile and fixed services with door lines posting better growth rates than the fourth quarter.

Mobile service revenue accelerated to grow 2.8% year-over-year with postpaid segment growth also spending up to reach almost 4%. Mobile service revenue is also receiving the contribution of customer platform projects and this is the second quarter that we book revenue from this new revenue stream. In this quarter it some BRL17 million. In parallel fixed services are also growing faster up by 12% with a solid contribution from TIM Live of more than 20% year-over-year.

ARPU Improvements in all segments are a significant driver for both mobile and fixed accelerations. The key element of our mobile recovery amid the second wave of pandemic is the ability to play our game from volume to value. Despite there being store close across the country impacting our commercial activity our mobile ARPU grew almost 7% year-over-year with postpaid and prepaid contributing positively to the performance. We expect that to improve even further our prepaid dynamics. In the first quarter, we increased the participation of E-recharges to 55% of the total and accelerating the adoption of TIM+ Vantagen advantage program. In March prepaid recharges were slightly positive versus last year.

Back in April, they are up by 9%. For postpaid churn reduction was highlight. Once again at the time we continue to differentiate our offers with the OTT marketplace and try to monetize data consumption with and more for more approach still in the mobile arena but now talking about new initiatives on the customer platform, NIM, our project are starting

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to bear fruit. Out of this 17 million BRL revenues 11 were generated by financial services, and 6 million were generated by mobile advertising. The latter was driven by the evolution TIM [ph]match and informative platforms.

Besides rewards for video ads we are working on lead generation service and up installations. In the second quarter, we expect even more after the launch of TIM Front and our partnership we Play to Pay TIM use with Ayco.

Talking about the future the customer platform roadmap is store also in the second quarter, we expect to sign an MOU with any learning platform and our digital wallet negotiation are speeding up, so we expect news by the end of the quarter.

This time we either managed to bring other telcos on board or we do it alone. (inaudible) we are starting the first negotiation, so it would be something for the third quarter.

Changing gears and moving to the fixed services it's not a surprise that TIM Lives consistent performance combining ARPU and customer base growth produced shortly result in the past years and it's not different this quarter.

Additionally, we are developing the connected our concept to bring more innovation to our clients and selling intelligent devices. Regardless of the difficulty posed by one year of pandemic we managed to keep growing our coverage reaching 3.5 million homes passed with progress up 40% against last year.

These are remarkable achievement, but we believe we can do more that is why team is partnering with IHS in the FiberCo project. As we have been saying from the start, this deal is an industrial orientation different from other deals you can find in the market.

Summarizing the deal, the FiberCo receive TIM Lives last mile network in FTTH and FTTC and TIM, will hold 49% of the capital of the new company.

TIM will drive the network rollout, but the fiber will be open to other players to rent. The FiberCo was valued at 21 times in terms of enterprise value on EBITDA multiple and TIM will receive 1 billion in proceeds from the transaction. As a

As a consequence of the deal, I mean they consolidate a large portion of TIM large CapEx and even if the new cost emerged from the last mile rent the net adds will generate a positive contribution to free cash flow.

Maintaining our discussion on infrastructure developments. I would like to remark that it was not only the broadening coverage that grew soybean despite the challenges of the moment. Mobile coverage also expanded soundly 17.5% more cities covered with 4G, 27% more toward the 5G more than 40% growth in cities covered by 700 megahertz and more than 120 sites with the Sky coverage project to cover remote areas but network developments didn't stop there. We are preparing our network for always asset integration and planning the 5G rollout. In this context[ph] Malmo rollout side with the and

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the network sharing agreement with Vivo play a crucial role in the next step of our infrastructure plan. Before moving to key evolution I wanted to remark that despite 5G DSS being the 5G or marketing entails its importance and we know how to play this game this is why we are ahead of the competition on this front as well. Today we have the broadest coverage in these technology with 19 cluster of cities, approximately 150 DSS station. Also our customer access the 5G DSS technology more frequently than our competitor clients. And to complete the 5G topic, TIM was the first Brazilian telco test 5G standalone with the commercial equipment reaching speeds above 1 gigabit per second.

Now on the IT front, I'd like to remark TIM's pioneer more with the support of Microsoft and Oracle to be the first operator and one of the first company in Brazil to migrate 100% of its data center to the cloud. We already detailed the project during our investor day but I want use this as an example of the importance of having an integrated approach to ESG. In this project, we combined innovation, (inaudible) focus efficiency, and positive environmental impact to take TIM to deferred front of the IT solution. It is essential to, this is not the only example. When we analyze the outputs of our digital transformation in caring services and now the positive impact in the different segment it is becoming clear that technology will help us with one of the most present ESG challenges for telco in Brazil, it's costumer's satisfaction. One of the beauties of digital transformation is (inaudible) at the same time it support customer experience, but it also helps to control and reduce costs. We're still in the middle of the process, so we have a long way to go. But this past year digitalization speed it up. For sure, one of the consequences of the pandemic E-recharges [ph]EBIT, e-payment and e-sales end up with [ph]these Asian or presented double-digit increases versus 2020.

On top of that peaks which was launched six months ago already has more than 2 million TIM in Boise speed. In this context, our OpEx, continue to be under control well below inflation. It went up just 1.7% versus 2020. But that continue to show solid performance.

But as we mentioned in the fourth quarter, the main structural changes would have done improvements would be more incremental than transformational and we need to account that we are more than 60% of our revenues in postpaid. Clearly the combination of revenues going up and costs under control is well known. It produced EBITDA growth. In our case, a solid for both 5% year-over-year and this is the nineteenth quarter with positive EBITDA growth. Additionally, it also generated margin expansion to reach 46.6% and net income rise of almost 60%. As I mentioned earlier we are preparing our network for always asset integration and resuming project initially scheduled for 2020.

So our investment totalized BRL1.3 billion growing more than 40%. Before I conclude my presentation, I'd like to highlight that the mobile sector is being reshaped by dealer acquisition on one side and the spectrum auction on the other side. Both are expected to core at certain point, in the third quarter.

On the Oi mobile deal it is worth pointing that the transaction approval process is going according to expectation. We have completed all the necessary steps with (inaudible) to conduct their analysis. Now we must wait. As for the auction we continue to view it as having a well the same structure which will privilege investments to sell customer in the best manner.

As we stated before TIM's focus will be the 5G frequencies. We are waiting on TCUs contribution to complete the details of our strategy for the ending my comments I want to remark on the sound result we are delivering amid a very complex environment which confirms the company positive momentum and solid fundamentals. So when we continue to work on mobile growth acceleration the expectation that vaccination can represents an upside.

Implementation of the deal with IHS to grow further our FTTH business continue developing our customer platform strategy to increase each contribution transforming our infrastructure and preparing the company for the future and lastly maintaining the focus on profitability and financial discipline.

Thank you. We will now open the floor for questions. Please operator

## Questions And Answers

### Operator

Thank you, Mr. Pietro. Now we will begin the Q&A session. (Operator Instruction). The first question comes from Matt Robilliard with Barclays. Please, you may proceed. Mr. Matt You may proceed. (Operator Instructions) The next question comes from Leonardo Olmos with UBS.

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

Hi, good morning everyone. Can you hear me well?

#### A - Adrian Calaza {BIO 16534692 <GO>}

Yes, we can hear you well.

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

Okay. And thank you. Sorry about that. Well, I have two quick questions, the first one about the the FiberCo sales to IHS. Great deal first of all, congratulations. I wanted to know if you could share with us the EBITDA that these operation was generated so we can understand a bit about the multiple. And if there are any or any long-term clauses in this (inaudible) such as there now. Thank you.

#### A - Adrian Calaza {BIO 16534692 <GO>}

Okay. Hi Leonardo, it's, Adrian here. So you know that it's not easy to disclose those kind of information in terms of EBITDA but I think that since Pietro mentioned the multiple that we arrive with -- with the enterprise value that that we are considering, you can do the math and it's -- it's almost pretty easy. Then, I mean my yields are. Yeah. Yeah well Pietro mentioned -- Pietro mentioned the twenty one times enterprise value over -- over the 2020 proforma EBITDA. So good thing here is, that's the 2020 EBITDA in terms of proforma clearly what we had. It's a very challenging business plan but is the internal business plan that we have even before the transaction.

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What I'm trying to say is probably in the future we can do more of what we put in the business plan, because at the end, that's the goal of closing these deals and especially with-- with IHS being them up and an industrial partner in this case, because remember, we always said that this for us was not a financial deal. It's more an industrial deal, due to the fact that we wanted to be in the business of fixed ultra broadband. It's the opportunities that that the market will have in terms of new connection of FTTH in the next three years, 11 millions of new collections you're going to understand that there is a lot of space for many players and we want to catch a portion of that opportunity, so internally with the actual situation could have been a little bit difficult because this will mean additional CapEx being difficult will for most much more capital intensive than the mobile.

So that's the first goal of the FiberCo project that then yes of course we can also mention the more financial side of the transaction. And then you arrive there to that multiple one times EBITDA.

But it's not something that for us is the key, the key for us of this project is industrial. Then of course this the secondary that we mentioned will help us in order to finance the deal with Oi, yes Of course, but be sure, that the first of all for us for this project was industrial

**A - Alberto Mario Griselli** {BIO 21170674 <GO>}

I think that you had a second question on Donnatal was.

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

Yes, thanks for that. Yes. And thanks for the answer. The second question is related to the agreement you made with Telecom Italia, I understand that you have you tested seven other companies to provide the this submarine cable the foreign connection. I just wanted say before this deal how -- which company were you using what were you doing before that to get access to so far Internet from Brazil.

**A - Alberto Mario Griselli** {BIO 21170674 <GO>}

That I don't know if I, if I got your question Leonardo, is regarding our contract that we signed with Sparkle?

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

Yes, yes. That's it. My question is you signed the contract with Sparkle rights for 2021 until 23. My question is before that which company, we're using, what was the capacity, how much were you paying?

**A - Alberto Mario Griselli** {BIO 21170674 <GO>}

(inaudible)speaking. So this information was disclosed yesterday in our communication. All the information available about this contract with Sparkle as it's related body is public, I will pass the floor to Mr. Alberto, so he can explain the -- since this is under our wholesale department. Please Mr. Alberto. Yes, hi, Leonardo. It's, it's a quite a standard piece of business meaning that on a yearly basis, we review the terms of conditions, sir. Our

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Internet traffic and so we saw in the market and we check out the best deal in terms of volume versus prices and so this specific contract was discussed yesterday. And yes, it has been awarded to Sparkle because you provided to us the best technical scoring and the lowest price and it extends for the 12 months renewable.

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

Yeah. Okay, just. I'm not sure I got my question. In 2020, who was the Sparkle who was providing the capacity?

**A - Alberto Mario Griselli** {BIO 21170674 <GO>}

Sparkle 2.

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

All right, thank you very much.

**Operator**

The next question comes from [ph]Gabriel it with JPMorgan.

**Q - Analyst**

Hello everyone, do you hear me well?

**A - Unidentified Speaker**

Yes you are.

**Q - Analyst**

Thank you for the call. I have 2 questions on mobile, if I may please. The first one you, Pietro mentioned during the speech this is move from volume to value. And indeed, we can see that the postpaid net adds from TIM have been softer in the past months, but on the other hand, you have been able to increase ARPUs and increase postpaid revenues. I was kind of trying to understand the drivers behind that. How are you benefiting from price increases or our customers migrating for higher value packages such as Controle and pure Postpaid.

**A - Unidentified Speaker**

Yeah. And the second question?

**Q - Analyst**

The second question is still on mobile, if you could give us a color on competition. We saw Oi launching unlimited products. How are you seeing this run off? Thank you.

**A - Pietro Labriola** {BIO 19448607 <GO>}

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Okay Gabriel. First of all, thank you. You catch the right bar that is related to our strategy that we declare since a couple of years to move from volume to value. As you have seen, we posted a growth year-over-year in this first quarter, mainly on the postpaid and the growth is related also to the fact that we had softer net debts increase, but in the meantime, we were able to continue to increase the level of consumption in our packaged by our customer what they mean that our package differently from WhatsApp and for example, is some country lacked Italy or US do not have a new amount of giga. During the pandemic, customer for their increase their level of data consumption and it will allow us to giga to package to higher amount of giga. What is important to a light is that in this number is not yet included price shop that we did in the month of March. The impact of the ARPU increase coming from the price up will be more --- will be appreciated in the second quarter. What is important is that our price up is not a real price increase, but it's with our more for more strategy. What we do, we had more giga for the customer exchange so our strategy that we defined from volume to value is composed by package debt of giga that progressively time by time our increase in terms of amount of giga in front of a price increase. This will follow the data consumption increased from our customer that in 2020 was driven by the increase of consumption and due to the pandemic, but it is a natural trend net country like Brazil. To sustain this strategy, we have to further improve our quality of service, the fact that we were able also to reduce the level of churn as I mentioned during my speech, is there for their element that confirm that we are on the right time. So when we will discuss the result of the second quarter, we will show a further increase in the revenues of postpaid year-over-year. This time they will be much more driven by an ARPU increase a less driven by a customer base increase. Coming back to the second question, that is related to the competition. It's time by time if you remember it up and also with next in 2019, there are some operators that are perceived in the market with a lower lower level of network quality that try that try to gain space releasing on demand in the market offer with an higher volume of the giga to the good part of the market and of the customers of these offer and of these operators, what's happened is that they do not have impact in terms of strong increase of customer base of change of operator. So we do not foresee these offer as an issue that came change. So again, I don't know if you were able to catch hold my answer because we understood that there were some technical issue Gabriel, I was able to explain.

### Q - Analyst

You're, you were cut sometimes, but I got the answer, thank you very much, Pietro, very clear.

### A - Pietro Labriola {BIO 19448607 <GO>}

Okay, I apologize for for the issue, but if you want, I can reverse.

### Q - Analyst

No, it's good, thank you.

### Operator

The next question comes from Cristian Faria with Bradesco BBI.



## **Q - Cristian Faria** {BIO 21795660 <GO>}

Hi, good morning everyone, I have two questions regarding the the FiberCo deal, so the first one, I would like to understand the estimated growth, both in terms of homes passed, if the Smith growth now, we didn't see so much difference regarding the expected CapEx deployment, but we'd like to understand how much the company can achieve within homes passed in the the future now with the new investment partner previously and second my other point is that if the primary offer that the company will receive it's enough to fully finance the growth expected in terms of capital deployed. Thanks.

## **A - Pietro Labriola** {BIO 19448607 <GO>}

Okay Christian, I think that first of all, it's important to remember that when we presented the new plan during the TIM Day with clearly stated to the market that, the FiberCo project. So once we close the deal with EHS, the first step of our deal was to use EHS to fulfill what was included in our plan in terms of home passed. So in this, in this first phase, we are not having for their home passed but through the Diacor of IHS, we are going to deliver what was already included the plan. It's clear that what we have been (Technical Difficulty).

## **A - Unidentified Speaker**

I take the question from here because we have some issues with the connection. But I think that you heard what Pietro was mentioning, we reached this agreement with IHS for, for the FiberCo based on our actual plan for deployment of, of FTTH and obviously operation and maintenance of the actual networks. Clearly, in order to reach the agreed disagreement we need to base it on what we already have and what we are already projecting.

As I was mentioning, I was what's in the first in the first question. Here the goal obviously is to accelerate as you know, the opportunities that will have in the next few years, a big. We want to get a big portion of those, of those opportunities. So, yes, obviously, the intention is make more of what we were projecting what we have now and the base of this agreement is the actual plan that we have. So that's why you see the figures of reaching almost 9 millions of of home passed in in four years or what we are doing in terms of, for the next few years.

The other part of your question is regarding the component of the primary that IHS will be, we will be paying if it is enough in order to finance yes, it's enough to finance the first years of the operation remembering always that the good thing of this FiberCo is that is born with a noncore customer that is team. So the FiberCo will have an EBITDA since the, since the beginning.

Probably something different in other cases, but again we would try to focus on our project. So of course with the EBITDA and the capital injection coming from IHS, there will be enough cash flow, the finance to finance the, the additional deployment. Obviously, every company couldn't can be much more efficient through leverage. And we, obviously

could consider this alternative. But again we are -- we are very comfortable with the least -  
- with this level of primary at least to finance the first 3, 4 years of the of the of the fiber.

**A - Pietro Labriola** {BIO 19448607 <GO>}

I'm already. Do you hear me.

**A - Unidentified Speaker**

Well yes. Yeah.

**A - Pietro Labriola** {BIO 19448607 <GO>}

Do you hear me well now.

**Operator**

Yes. Pietro

**A - Pietro Labriola** {BIO 19448607 <GO>}

Okay. Sorry, I apologize. Just to complement both that and was I was telling before that it is important to remember that when we presented during our TIM the presentation our three years plan we didn't include in our numbers, the fiber co-operation, FiberCo deal. So in this first phase what these happening is that we are replicating with FiberCo the target of on past that there were in our plan, in our accusing plan. It's clear that we have the flexibility to further accelerate because our goal is to use this vehicle to have an acceleration in terms of coverage.

The way in which this deal was built, give us the flexibility to do that is that I was explaining, also from the financial point of view, there are all the element that can allow them to have a further acceleration. What we will do is that once we put everything in place from the operational point of view, the next step will be to evaluate the right speed up that we can add with this vehicle. And again, as answering also to the first question that we received their on FiberCo, it's real important not to discuss about which is the level of EBITDA of this FiberCo because from our point of view, this is an industrial operation and this is no financial operation. Because if we would like to have the financial operational on that it was quite easy to increase the level of EBITDA of the company, increasing the transfer price of the cost of the local loop. We kept these level at the low rate because this is a vehicle that will allow us to further accelerate our growth in the ultrabroadband business.

So again, I'd like to stress this point because this is not a financial pillar it has also important financial components, but at the end of the day is an important industrial deal, it will allow and we further accelerate our ultra broadband development.

**Q - Analyst**

Perfect, thanks. These if you just allow me to make it (Technical Difficulty) going to be, we'll see in terms of TIM branding. So, to (Technical Difficulty) continue to both (Technical

Difficulty) infrastructure to other player.

## A - Unidentified Speaker

Christian, we lost you for part of your, what I can you rephrase?

## Q - Analyst

Perfect, perfect. I just want you to understand is the the growth in terms of homes connect will be exclusive if you use the TIM brand or the fiber company will be able to offer the other home passed to other players as well.

## A - Unidentified Speaker

Okay. Yeah, understood. As we mentioned in the material fact that we issued yesterday, there will be forever -- for every new deployment a period of exclusivity for team of six months. After that, yes, obviously, the FiberCo could start to offer the infrastructure to have the players. That's the main difference when we talk about neutral or open vehicles.

In this case, it's not a neutral because the vehicle will have the anchor customer that is TIM and we'll have an exclusivity period on every new deployment. But then, yes, these networks will be open to to third parties. That's probably what's interesting in this, in this deal in and we think that it's reflected in the value of the company.

So again remembering always that we will keep all the management of the customers, we will keep even the management of the of the home devices so the [ph] more of them because we think that this is an extremely important touch point with our customers. So again the, what we are putting here in this FiberCo what we are dropping down is from the OLT, from the cabinet and till to the customer to the customer.

So the answer to your question is yes. The networks will be open after a period of exclusivity.

I don't if (inaudible) mad because perhaps also do the comparison and help Christian to catch difference between other model of the InfraCo. Is that it was was explaining. In the Brazilian market, you will see that you will have some cases in which the infra cost model will be completely neutral. What it means that from the O, the day where they've been infrastructure, the last mile can (inaudible) be both by any operator. There will be no exclusive of the time for one operator to buy from this neutral InfraCo. Is this is more or less said the model of the Oi InfraCo, okay. It is -- and more than that is pure all sale that have some pros and some cons related to the fact that you don't pay and anchor operator customer. Our model as other was explaining is open. What it means once we would will be the fiber infrastructure for a certain period of time, 6 months, the only operator that could buy that infrastructure would be TIM. After that period of time it would be open also to other operators. Okay. So these are 2 more completely different because in the second one would want it was chosen by, it's clear that you can give a strategic indication in the are that must be developed and continue to be synergic with TIM's strategic plan. This is the reason for which I stress, I'll stress another time it's more an industrial then financial year deal.

## Q - Analyst

Okay, thanks. Thanks, Pietro. Thank Alberto.

## Operator

The next question comes from [ph]Carlos Ikeda [ph] with BTG Pactual.

## Q - Analyst

Hi Pietro, Adrian. Good morning, how are you. Thanks for taking my question. But questions I will show should the transaction fiber company. I think by now. I got it. But just to confirm the change backhaul -- backbone and not included in the assets that have been transferred right to the FiberCo, they will remain controlled by TIM. Is that right?

## Q - Unidentified Participant

You talked that you -- you told the Carlos backbone, is it right

## Q - Analyst

Yeah backhaul and backbone. Yeah.

## A - Unidentified Speaker

They would stay with TIM. Okay. So any decision by the fiber.

## A - Adrian Calaza {BIO 16534692 <GO>}

But I do it's sorry it's Adrian here. Yeah, as Peitro was mentioning, we always said since the beginning that what we were interested in in another to find a partner who was on the last mile and why this was the same, because remember that our backbone and obviously our backhauling are mainly for the mobile business yet, considering what we have. Of course, as we said in the beginning the (inaudible) it's always leveraging on these mobile infrastructure that we have.

So for us, it was extremely key to maintain what we have in terms of, but when and backhauling in-house, so that's why, the only thing that we are dropping down is the secondary network. It's at the end, as we mentioned, this is an industrial deal and it's probably more strategic in the strategy is to maintain the backbone and the backhauling in-house.

Then there could be an additional subsidies in the, in the deal in this FiberCo deal, because FiberCo could be in the future. Yes. Deploying infrastructure, not only on the FTTH but also on, on what we call FTT side, because it could be also efficient, but what we are dropping down to the company is limited to the secondary network.

## Q - Analyst

Now, it's clear and I think this is important to, should be clear to everybody because we ourselves when we were doing the analysis we mentioned an EV per homes passed it and compare it should it happen been completely different right because included backhauling backbone in we're not include any. It's impossible really compare the different transactions from a valuation standpoint, right?

### A - Unidentified Speaker

Yeah, you are right. Also because some of the transaction that happened and have also each customer included it. In such a case, we are only including the last mile, that is the fiber the go from, let me say the OLT, not to the customer house.

### Q - Analyst

Now perfect. And a different question, I mean, you, the plan -- the expansion plan is pretty, pretty aggressive, right? My question is which type of geographies (Technical Difficulty) or is looking the fact company will be extending to, is there any specific target you looking forward just a top of market that you were going to target with the new company?

### A - Unidentified Speaker

Carlos, it's clear back that, if we were just into in front of a coffee or a glass of wines, I can give you a lot of details. But now could be the disclosure of our strategy. What they mean? It's clear that your question, try to understand if there is the risk of some overlap with other activity that are quite similar.

We took a lot of attention it our GEO market more to evaluate to evaluate exactly where to go, know our plan there will be, for sure in the something that we can disclose part of the change of the FTTC and FTTH what we call brownfield. The choose of the remaining area will be done based on our idea about the move and the strategy of the other player in terms of your marketing and analysis about what is the potentiality of each area and it's clear, you have to consider that are these different factoring that you have to keep in mind. Also the strategy of the other player so.

There is someone that take up evaluate the evolution of the cable technology if and how which cost cable technology is able to scale up up to 1 gigabit per second with the migration of copper to fiber from some other player. There are some small lease but that fiber optics network, but with the level of overbooking that do not allow in an easy way to upsell and upgrade the network at highest level of speed, so these are all the different elements that we are evaluating to define exactly, our show marketing approach in the different area.

What is clear that we will try to avoid overlap and we will never try to be the tip of the fourth player to go to build a fiber optic network because makes no sense from the industrial point of view, but in some way thank you for the sites of Brazil the untouched market is still huge. So I don't foresee in the next three, five years huge issue in terms of overlap.

## Q - Analyst

Now that's clear, thanks Pietro, thanks Adrian.

## A - Unidentified Speaker

Carlos, it's clear that you have to keep in mind that this is something that is it should concept to consider also what will be as I mentioned the strategy of the other player that tend to keep in mind that differently from TIM, they have some legacy. So the strategies defend the legacy. migrate the legacy, go for untapped market, but it will be difficult for them to do, all of them. And we must be clever having no legacy to try to fill these, let me say, gap in their strategy that will be less on the market due to the fact that the increase of speed is a fact, we are already moving to offer for a 400 megabit or 500 megabit per second and you can imagine that there are some technology that can have much more difficulties to follow these kind of strategy.

## Q - Analyst

Yes, no doubt. Thank you Pietro.

## A - Pietro Labriola {BIO 19448607 <GO>}

Very welcome.

## Operator

The next question comes from Alejandro Gallostra with BBVA.

## A - Alejandro Gallostra {BIO 17362308 <GO>}

Hi, good morning Pietro, Adrian. Thank you so much for taking my questions. The first, the first one I'm trying to better understand the strategy of the New FiberCo. The purpose of the of the FiberCo is to, is to have all your homes passed with FTTH in four years and having nothing with FTTC, so that that would mean that you plan to upgrade your current FTTC network to FTTH and then increase the FTTH footprint in order to reach the nine million FTTH homes passed within 40 years is that correct? Or we are talking about nine million FTTH plus 3.5 FTTC? And then what will be the infrastructure deployment plans at the Milano. That's my first question, and then the second question is regarding the personnel expenses, you have been producing the number of employees at a faster pace in recent quarters, will this trend continue as part of the digitalization process, or it is accelerating because you were permanently closing stores and how much, and how much reduction in the workforce should we expect going forward? And in addition, related to this question, you mentioned in the press release that employees will be transferred to the new FiberCo, so would it be possible to measure the number of employees that you will be transferring to the new entity, when the transaction materializes. Thank you.

## A - Pietro Labriola {BIO 19448607 <GO>}

Okay. Related to the few questions before to leave Adrian to give more details perhaps my previous speech wasn't clear. We are not starting to face off the FTTC changing everything for FTTH. We now are three year plan, what will do that will partially substitute

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in some area FTTC with FTTH. We don't have to do that in once. So at the end of the three year we will continue to add FTTC customer, but we will migrate part of them not all customer to FTTH, Okay. So if, I don't remember. But today we are more than 300,000 FTTC customer if I'm not wrong. Our number at the end of 2023 will be to reduce FTTC customer from 300,000 to 200,000 customer, but Adrian can correct me if I'm wrong. Related to the personnel expenses keep in mind that, first of all customer employee reduction we don't foresee employees reduction also because we are rebuilding company, we have more or less 9500 employee, if I remember well in 2015, we were still thousand 15,500, okay.

So we already did that huge job in terms of the use of external forces, outsourcing part of the activity. So we don't foresee these activities. What will happen that the digitalization process that we put in place he is allowing that to reduce costs that we have externally for some kind of activity that are more human base then out to monetize. Then in relation to the comparison year-over-year, if you look at the real labor costs, if you look at the overall cost it's an increase in if I'm not wrong 8% year-over-year. But the real increase on what these exactly labor cost, it was only 3%. It is more or less aligned with the inflation. The remaining part is rate is related to some contingencies. But again, Adrian, please. If you want to integrate or correct something that I told.

#### **A - Adrian Calaza** {BIO 16534692 <GO>}

No, you said you said correctly Pietro, on the first on the first part of the question in terms of what we have 4 years from now in terms of, in terms of home passed. Clearly we want to reach 9 millions of home passed on FTTH but they will remain still some others on FTTC. Why, because we will be overlaying from seed to age where we need to. As always, we need to be extremely efficient to maximize the return. So is not that we will be overlaying all the FTTC in 4 years. On the second part of your question regarding the employees that will be to the FiberCo, remember this is a very limited, limited number of employees we're not talking about something significant. Anyway we didn't have any movement in numbers of employees in the past, we think that we are, we are very comfortable with the after situation. We don't have plans in order to reduce this number.

#### **Q - Unidentified Participant**

I think you know that yet Adrian.

#### **A - Pietro Labriola** {BIO 19448607 <GO>}

Alejandro, your question allow me to further give another detail about why FiberCo. Next year but reality, the truth is that already this year we will have a big challenge that will be the integration. touch would of the Oi asset. So one of the reason to create a FiberCo was also to create, let me see and a center of excellence in terms of fixe operation for the last mile. What they mean until you discussed about backbone, backhauling, transport network there are a lot of synergies, managing a unique network fixed and mobile. When you talk about the last mile is something that is completely different from, let me say the last mile of mobile. Mobile is a delivery of a SIM and digital works. In the last mile, it's a complete different job. So the creation of a FiberCo will allow us to have a team that will be completely focus in this tough job and we are sure that we will benefit the mass also from the operational point of view to have a separate company completely focused on

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this activity. Have been working on the fixed for a lot of years in Italy and they can assure you that I don't want to say that there is one simplest then the other. But for sure, our two activity completely different and it is difficult to let them come back. So the creation of this company will allow to our internal team to be 100% focus on the integration of Oi and discussing about the operation activity and we will add another team that will be in the new in the InfraCo that will be completely focus to base that this last mile network, then Alberto and this team will be focused to sell fixed and mobile because at the same level nothing changed and will continue to manage the customer.

## Q - Analyst

Understood, very clear. Thank you very much.

## A - Pietro Labriola {BIO 19448607 <GO>}

Thank you. Leon

## Operator

(Operator Instructions). Ladies and gentlemen, without any more questions I am returning to Mr. Pietro Labriola for his final remarks. Please Mr. Pietro. You may proceed.

## A - Pietro Labriola {BIO 19448607 <GO>}

I have been saying this for the past few quarters in TIM, we don't use shortcuts. We will maintain our focus on the sustainability of the business with a rational approach and solid execution. The anti-fragile stance of the company is still in challenges into opportunities to evolve further. So we will continue to use our innovative approach and the agility to make the right decision and be ready to take full advantage of the recovery of the economy. I want to thank the dedication and commitment of our team who continue to overcome many challenges to deliver outstanding results. Once again together, we can do more as we say in Germany (Foreign Language). Thank you once again for participating in our conference call. Stay safe and healthy. I hope we can virtually meet soon in the upcoming events so we will be doing with the financial community. But I hope to meet you in person as soon as possible.

## Operator

As we conclude the first quarter of 2021 Conference Call of TIM SA. For further information and details of the Company, please access our website TIM.com.br/ir. You can, you can disconnect from now on. Thank you once again.

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