

## Y 2020 Earnings Call

### Company Participants

- Adrian Calaza, Chief Financial Officer & Investor Relations Officer
- Alberto Mario Griselli, Chief Revenue Officer
- Leonardo Capdeville, Chief Technology Information Officer
- Mario Girasole, Regulatory and Institutional Affairs Officer
- Pietro Labriola, Chief Executive Officer
- Vicente Ferreira, Head of Investor Relations

### Other Participants

- Cristian Faria, Analyst
- Diego Aragao, Analyst
- Leonardo Olmos, Analyst
- Marcelo Santos, Analyst
- Maria Tereza Azevedo, Analyst

### Presentation

#### Vicente Ferreira {BIO 18854359 <GO>}

Good morning, everyone. This is the Vicente Ferreira, TIM Brasil's Head of IR. I'd like to welcome you to our 2020 Fourth Quarter Results Conference.

We would like to inform you that this event is being recorded and the replay will be available on the company's IR website. After our CEO remarks are completed, there will be a question-and-answer session for participants. Further instructions will be provided via chat message.

We highlight that statements that may be made regarding the prospects, projections and goals constitute the beliefs and assumptions of the company's management. Future considerations are not guarantees of performance. 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 S.A. may affect its performance and lead to different results than those planned. Should any participant need assistance during this presentation, please reach out to our TIM via chat.

Now I will turn the conference over to our CEO, Pietro Labriola, so he can present the main messages of our results.

## Pietro Labriola {BIO 19448607 <GO>}

Good morning, everyone, and thanks for attending our fourth quarter conference call.

2020 was marked by the COVID-19 pandemic which posed major challenges to society with impacts on the public health and economy. The measures to combat the pandemic through isolation and social distancing have substantially affected the day-to-day lives of our clients and our operations.

For TIM, the impact of the pandemic were mainly concentrated at the end of the first quarter and throughout the second, and imposed on us: first, closure of points on sale with a reduction in commercial activity; second, transition to 100% virtual work model; third, change in voice and data traffic in our network; fourth, change in the relevance of telecommunication services to the lives of customer; and last, the lower economic activity and income availability.

To manage this situation and revert it in evolution for TIM, it was necessary a lot to focus on execution, with agility in decision making, prioritization and digital courage. As challenging as this context has been, the company proved to be antifragile, presented solid results at the end of 2020 and see this significant transformation for the future success, the acquisition of the Oi mobile assets, the execution of the network sharing agreement and the beyond the core new revenue stream, but above all, delivering what we promised.

As highlights of our fourth quarter, we maintain the recovering revenue dynamics started at the beginning of the second half. We also managed to sustain a solid execution on costs and accelerated cash flow expansion. Net service revenue for 2020 showed positive growth on the back of the acceleration of revenue dynamics in the fourth quarter. Service revenues in the fourth quarter were up 1.9% versus last year with ARPU growing in all segments.

Bad debt was down sequentially and year-on-year representing 2.3% of total gross revenues. On the metrics, EBITDA margin and EBITDA minus CapEx over revenues for the full year, we overdelivered surpassing our targets for 2022. Mobile postpaid net additions were positive in the fourth quarter as well. While TIM Live's clients base continued to grow at this solid double-digit.

By the end of the year, we have also reached important milestone. Our network was recognized once again as having the best 4G experience for Brazilian customers. The special projects fronts starting to materialize with the signing of the deal with Oi and the equity stake in C6 Bank, and confirming our 360 degree approach, we also enhanced our governance with the creation of the ESG Committee. It is fair to say, we have a pretty balanced performance uniting, financial recovery, operational improvements, network evolution and delivering other value creation initiatives.

Going into more details of our revenue recovery in Q4, we saw a positive contribution coming from mobile and fixed services, with all major lines posting better performances.

The second half service revenue growth was 1.6% year-over-year, while in the first half it was a negative 0.9%. Mobile service revenue accelerated to grow 1.5% year-over-year, while digital service were up by 8%. Full year flattish mobile service revenue and 28% growth at TIM Live led to total service revenue to grow 0.4% versus 2019.

All ARPU metrics grew sequentially and yearly, showing the ability of the company to start value from all segments of its customer base in mobile and fixed. Again this reinforces that our strategy from volume to value is bearing fruits.

The mobile acceleration in the fourth quarter was more pronouncedly impacted by the postpaid segment. Customer management and service quality focus were key to drive strong churn decline and revenue growth recovery. Postpaid revenues accelerated to 3.6% year-over-year growth up by a reduction of 100 basis points in churn rate. In prepaid, we continued to experience a V-shape recovery in recharges although still slightly below 2019 levels. Improvements in the number of rechargers and spending per customer are driving this trend.

It's worth mentioning our innovative offers launched during 2020. TIM Black Familia plan, the marketplace for entertainment hubs, TIM (inaudible). All of these are helping the company to differentiate from our competitor and move away from a price-based competition model.

Moving onto the fixed segment, TIM Live continues to perform at high level. We closed the quarter with this unit growing 25% year-over-year. TIM Live's ARPU grew high single-digit, and we added close to 80,000 new clients in the last 12 months. Our fiber coverage grew more than 40% in the last 12 months, going above 3.2 million homes and 34 municipalities. For the fifth year, TIM Live ranked number one in the Estado newspaper ranking for broadband services. These awards confirm the success of our naked broadband with OTT-friendly approach.

As a final element in our revenue discussion, I will comment on the important achievements we had during the quarter concerning our new revenue streams. In less than six months, we surpassed 1.1 million accounts opened in our partnership with C6 Bank. Our solid performance is rewarding TIM with 1.4% stake in the Bank. This stake is being valued at more than BRL160 million in our balance sheet. Still on the financial services front, TIM together with other operators, closed a partnership with Central Bank to develop PIX based solution for payment. Today TIM is already number one in invoice payment by PIX.

Mobile advertising and base monetization are developing fast. In the fourth quarter, TIM Ads reached more than 12 million clients with opt-in our third-party content platform, which translated into 450 million visits. For Informa TIM, a prepaid specific channel, we added more than 1.8 million clients as addressable market for video ads. We closed partnership with Accenture, Juvo, Play2Pay and Quod in these past months, so we expect great developments in the short-term.

For our IoT verticals, we are accelerating smart city solution and industry 4.0. Both are following this step we concluded in the Connected Car arena where we have now more than 50% of vacancies as addressable market.

Moving to the infrastructure, we continued to develop our network, both for mobile and fixed services. Once again, our strategy was rewarded. The widest coverage combined with smart spectrum management and deployment of new technologies build up as the best mobile experience. This was attested by the OpenSignal report. If we were able to do this with the spectrum gap against our peers, image the possibility once the deal with Oi is concluded.

On the fiber front, we surpassed 1,000 cities with a drop of fiber, a great achievement for a late comer like TIM. Our transport network is summing 108,000 kilometers in December 2020. It is always worth mentioning the TAC development as this is one of our priority in terms of investment. 2021 targets are being anticipated and being delivered in 2020. So we expect further customer experience improvements.

Our technological transformation is a combination of network deliveries and IT developments. 5G DSS deployment, network sharing agreement, Open RAN, and unplugged sites are prouder to take the mobile infrastructure to the next level. On information technology, we are implementing important projects that should help us deliver scale, flexibility, reliability and efficiency. The plan is to have all IT assets running from the cloud in two, three years.

While we are just starting our Journey to Cloud in the IT, we have already successfully implemented the new cognitive IVR and the TIM.X project. In the first, Tais, our artificial intelligence assistant is helping reduce human interaction by 18%, while 22 million calls were answered. Under the TIM.X project, we implemented a simplified dashboard from Google to help human attendants to improve their efficiency and quality of caring.

We are improving all our digitalization metrics, demonstrating the capabilities we are building with our digital system are helping to accelerate our digital transformation process, so much so, that we are delivering in the four main pillars impacted by digital transformation very strong results. Human interaction falling almost 40%, adoption of e-payment and e-billing above 75%, e-recharges penetration of close to 45%, and e-sales growing in all segments. In the past two years, the combined effort in those line among other elements produced a reduction in cost of 10.5% on average overall OpEx reduced by 7.8%.

Following the impacts generated by the digital transformation at the company, I would like to highlight the excellent performance in efficiency and cost control. In 2020, OpEx was down by 4% year-over-year, even absorbing higher infrastructure costs due to a larger and stronger network, proving that we will not be seeking cost cutting initiatives that could backfire on the company.

One key driver for that performance was the bad debt, which continuously improved throughout the year. Collection curves as explained in prior quarters are at their peak. Our

effort from now on will be to sustain those levels.

When revenues are up and Opex is under control, EBITDA present solid growth. We accelerated the pace of the last quarter to 3% year-over-year and again posted the best margin of the industry in Brazil, reaching close to 51% in the fourth quarter. As for 2020, EBITDA grew 3.2% with a margin of 48.5%. It's worth noting, we closed the year above our guidance for 2022, once again delivering on our promises, but in this case much earlier than predicted.

In a pro forma view, we produced in the past five year at 750 basis point expansion in EBITDA margin, while EBITDA minus CapEx grew compounding more than 40%. We closed the year with operating free cash flow showing very solid performance, summing more than BRL4.6 billion with positive contribution from EBITDA and working capital. The latter was positively impacted by the improvement in the collection curves, and also the postponement of Anatel fees.

In 2020, TIM declared a distribution of more than BRL1 billion in interest on capital, maintain the trend started in 2018. With that, and excluding the effects of financial leasing contracts, TIM stood net cash in the quarter by more than BRL2.7 billion including the leasing effects, net debt declined by approximately 16%. The cash position of the company of more than BRL4.6 billion is a real solid foundation for the financing needs for 2021.

On a quick recap, it is worth mentioning that our special projects are evolving according to our plans. After winning the auction for the mobile assets of Oi, we filed the petition for prior approval at Anatel on December 31. The signing of the sale purchase agreement was concluded on January 28, and we already filed the formal notification in CADE. This deal will transformed the company closing a historical gap of spectrum and putting TIM in a very solid position to compete in the market.

We were able to do so much with our network development, having significantly less spectrum than our peers. So let's cement [ph] the possibility with a much stronger position. The process to find a partner with which to develop our residential fiber network continues to follow its course, and is proceeding according to plan.

We formally created the vehicle that will receive the assets from the carve-out and we have entered the final phase of the project with a number of parties having submitted proposal that we are currently analyzing. We expect a signing of this transaction in the first quarter of 2021. We will keep you all updated on this topic in the coming weeks and months.

2020 was the year of solid achievements on all fronts, including ESG. It is always worth remembering that TIM's commitment to ESG didn't start yesterday. Our presence in the sustainability index for 13 years in a row is an example of our positive track record.

On environmental, we are at a solid pace to reaching our goals for carbon neutrality emissions and eco efficiency. Our energy projects are developing well and we have more

than 60% of our energy consumption coming from renewable sources, and we closed the year back in the carbon index of B3.

For social, we are meeting the targets related to the commitment to our employees in terms of training and workplace climate. Additionally, we are investing more in diversity and inclusion of project, such as our internship program.

Governance was marked by the creation of our ESG statutory committee and our leading presence in the TEVA index for Women Board representation. TIM remains as the only telco company in Novo Mercado, and the only one to receive the Pro-Etica certification from the Federal Controller General.

Concluding my comments, I point out the unprecedented challenges faced during the year, and how we have accomplished great thing. Our From Volume To Value strategy proved to be solid and that past [ph] recover our revenue dynamics during the year, while cost discipline and efficient approach help to cope with expenses pressures. The new avenues for revenue growth are becoming more tangible and materializing the opportunity ahead. And finally, we have very interesting opportunity to unlock value with different strategic projects.

When we look at our plan, we were able to deliver our main targets for 2020. EBITDA minus CapEx grew more than 5%; EBITDA minus CapEx over revenue reached close to 26%; CapEx stayed at low 20s level; EBITDA and service revenue growth rate as expected (inaudible) during the year were below our original target, but this show solid performances. This performance led us to enter 2020 at a solid speed and we are expecting the country to start recovering faster from the pandemic with the arrival of vaccines.

As I mentioned in the beginning, the antifragile stance of the company turn the challenges into opportunity to evolve further. As I always say, at TIM, we don't use shortcuts. We will maintain our focus on the sustainability of the business with a rational approach and solid execution.

Thank you. We will now open the floor for question. Please, Vicente.

## Questions And Answers

**A - Vicente Ferreira** {BIO 18854359 <GO>}

Thank you, Pietro. Good morning, everyone. Once again, I apologize for the technical problems that we had during the English conference call. We will now start the Q&A session. So the first question comes from Leonardo Olmos from UBS Bank. So, Leonardo, we will unmute you, and you will be able to make your question. Thank you.

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

Okay. Good morning, everyone. Can you hear me?

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

Yeah.

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

Okay. Well, thank you for taking the question. Yeah. My first question is regarding the infrastructure sharing agreement with Vivo. We saw on one of the last slides that it is going well. In the last week, we spoke with Vivo's CFO, and he said that you reached all these targets that the two companies were expecting. So I was wondering if you could escalate in 2021, what we could expect? I know you can't give quantitative guidance in that sense, but maybe qualitative, what else could you do, maybe share other parts of network, maybe share larger cities 3G. What could you escalate to thinking medium term?

**A - Leonardo Capdeville** {BIO 18844450 <GO>}

Hello, Leonardo. Here is Leonardo too. So, let's see. Talking about the sharing agreement, we are going very well, as you mentioned before. In fact, we started last year with -- obviously, that is the improvement of coverage in the cities that was not served by Vivo or by TIM. So it was the first, let's say, phase.

Now we are moving ahead with the 2G switch-off. And the most important part of the project is what we call the single grid. The first step is to run in a pilot WiFi [ph] around 50 cities and we are preparing all the rollout for 2021 to speed up that after this initial, let's say, test. The test is important that you guarantee that we still deliver not at, let's say, the same quality that we have, but we expect to improve the quality, at the same time that we are reducing the cost.

So we really believe that we can speed up this project in 2021, the single grid agreement. As I mentioned, we will start with the target to serve the cities below 30,000 inhabitant, but proving that, I guess, that we have, let's say, a open space for -- to be more aggressive on the next years. So the most important on that is not just the result, but it is to establish a new, let's say, mindset among the companies that to serve and share the infrastructure is a better way to be more efficient and to improve the quality of the network in Brazil. Thank you.

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

Great comment. Thank you.

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

Leonardo, if -- Leonardo, Pietro speaking, if I can add some more qualitative elements. As Leo mentioned, the most important element is a confirmed trend in the Brazilian market that show that the growth of the network is coming also through this kind of network sharing agreement. With no boundaries, what we mean that, we are open to discuss also with other telco player in Brazil this opportunity. This is an important part not only for the component of the traditional mobile network, but also on the fiber side where the InfraCo will allow all the operator to do further synergies. And this is something that in some way is also below the line included in the 5G (inaudible) for the next auction. And the last but

not least, these are the basis to start the evaluation of the possible switch-off of 2G and 3G that further hired in the years is something that we have to start to targeting.

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

Thank you very much, Pietro and Leo. Yeah, I was going to ask you about other things, but then you just mentioned something interesting now Pietro, the 5G (inaudible) what type of infrastructure sharing or anything less than that, could you -- could the three players agree in that sense or may be in a more broader sense, what type of sharing could happen in the 5G deployments. Could you elaborate on that, please?

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

Mario can give more detail. What is important to state is that nowadays there is nothing that was fully defined. This is something that we understand from (inaudible) that as the framework is in line with what we were expecting, then it's clear that (inaudible) is always in detail. So we have to look the number, the value, but the framework show some trends that could be really positive for the overall telco industry.

Mario, if you can...

**A - Mario Girasole** {BIO 17273549 <GO>}

Thank you. Good morning. Now, just for the issue related to the network sharing, the current version of the auction scheme is open to all the possible sharing between operators, both in the transmission and in the access side. So as Pietro especially said, we have to wait about the detailed rules and then of course we will analyze all the opportunities in that sense considering that TIM in the last decade is really a pioneer in terms of catching the opportunity of network sharing since the first 4G in 2012.

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

Okay, great. Thank you very much.

**A - Vicente Ferreira** {BIO 18854359 <GO>}

Our next question comes from Marcelo Santos from Bank JPMorgan. Please, Marcelo, we will unmute you, and you will be able to make your question.

**Q - Marcelo Santos** {BIO 17186991 <GO>}

Hi. Good morning. Can you hear me?

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

Yes.

**Q - Marcelo Santos** {BIO 17186991 <GO>}

Perfect. So, thank you for taking my question. The first question is about the 5G auction. I wonder if you could comment a bit on some news regarding the need for the 5G network



to be standalone network. So what could be the implications, what's the current status of the negotiations now? That would be the first question.

And the second question would be on C6 partnership. What are the next steps -- what are the next rationales or anything you could say regarding how this partnership could evolve? Thank you.

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

Yes, sure. Before to leave the stage to Mario and Leo to give you more details about the 5G SA, I think that it's really important to explain the choices that other telco players did in the world until today and what is happening here. It's clear that if I was back three years, SA wasn't yet a well-defined standard. So three years ago, it was risky to move to the SA standard. Once we are in front of an auction that we will have the freeze installation by the end of 2022, SA is becoming a reliable standard that tell how to forge through [ph] to develop all the services we are discussing about for IoT with the low latency. So this is the reason for which TIM since the beginning was very supportive to move towards SA.

Now I'll leave the stage to Mario and to Leo to explain also because we don't think that the choice between SA and not SA is increasing the level of CapEx, because at the end of the explanation of Leo, you will understand that there will be no difference. So why at the same price I have to buy a car that is two version older than the new one. Leo, please.

### **A - Leonardo Capdeville** {BIO 18844450 <GO>}

Thank you. Pietro. Just to reinforce one information that Pietro brings, the standard for standalone was finished in July 2020. What it means that all the companies that is starting the network after that is already using the new standard. One example of that is T-Mobile in United States that launched the network in November last year and it started the network with this standalone standard.

The same has happened in China. China started two years ago when they -- standalone was not defined, and thereafter the definition of the standard, they are now moving for the standalone. Why we believe that the standalone is the target that we have to follow.

The first, as Pietro mentioned, the network will start in 2022. So it doesn't make sense to restart that with legacy. The second, the investment in a standalone or non-standalone network is exactly the same. We are not talking about market information, but we are talking with internal information of security contract that we already have.

So it means that 90% of the investment on the network is in the access, in the ratio [ph], the ratio of the standalone and non-standalone is exactly the same. The difference is just a software. And the software doesn't have to increase the price of this implementation. And to finish this argument, when you're looking for the new stream revenues for the future or it means the new services, it is just a possible to deliver with the standalone, low latency, massive connection is rising off the network. So why to deploy? Two years ago was sometimes a doubt, but two years ahead there is no doubt about to use the standalone for that. Mario, please.

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**A - Mario Girasole** {BIO 17273549 <GO>}

Thank you. Thank you, Leonardo. Thank you, Pietro. Just one information, complementary information. The structure of the bid is like that. You have the value of the frequency and this frequency is discounted of the long-term investments. So the point is not what kind of investments you will do, of course, is more efficient making the future proof investment, is to correctly and carefully calculate the value of the frequencies. So this -- in our opinion, this standalone, non-standalone debate is quite a no-brainer debate. Of course, we have to invest in something future proof and we have the big opportunity to discount it from appropriately calculated value of the frequency.

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

Marcelo, can I address [ph] to the second question.

**Q - Marcelo Santos** {BIO 17186991 <GO>}

Yes, yes. Thank you for answering the first.

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

Okay. Thank you. About C6, it's better to remember the different element and we cannot go into many details because as you can imagine, there are also some element of confidentiality in the relationship with -- between C6. But first of all, starting from the next quarter, we will show more level of details to allow to everybody to monitor better the evolution. The elements that we are considering are two. The first one is more related something that have impact on our revenues that is the commissioning and the activation related to our sales activity that we do in name of C6 when we sell our package of mobile services jointly with the C6 offer. This value are mainly related to the lifetime value of the customer. So it's monitoring that we have to have in the next three, six months from the acquisition of the use of the customer of the banking services. I think that this is something really fair. And this something that we will show you through all the next quarter to better allow you to monitor the evolution.

The second step is related to the increase in capital. There are some threshold always related to the lifetime value of the customer that will allow us to reach up to the famous 10%, 15% participation in C6 that really depends from the speed with which we will be able to accelerate our acquisition because it's clear that it's in the interest of everybody to have a faster acceleration of the acquisition process. Again, also in the next, the 20 -- in the presentation of the plan in the TIM day of 1st of March, we will give more disclosure about the targets, and again we will allow everybody to have a better understanding of the monitoring of the evolution.

**Q - Marcelo Santos** {BIO 17186991 <GO>}

Great. Thank you.

**A - Vicente Ferreira** {BIO 18854359 <GO>}

Thank you, Marcelo. We'll move now to the next question that comes from Diego Aragao from Goldman Sachs. So, Diego, we will unmute you, and you will be able to make your

question. Thank you.

### **Q - Diego Aragao** {BIO 17889908 <GO>}

Yes. Thank you, Vicente, and thank you, guys, for taking the question. And by the way, thanks for hosting the presentation with Zoom. The quality looks much, much better, so thank you for that.

So my first question is on the postpaid business. The business is really improving, and it's now pushing, let's say, the overall results of the mobile segment. But we've also observed the TIM is somewhat lagging its peers in terms of net additions. So, I guess, my question is what is behind this relative weak performance on the postpaid and what are you guys doing in order to improve the results in the near-term? Thank you.

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

Thank you, Diego. I really appreciate your question because it allow us also to elaborate more on that. I think that is important to remember that one customer doesn't mean that is completely equal to one other customer. We are not counting bottle, or in some way, we can count bottle, but there are some bottle with half liter of water and some bottle with one liter of water. What I suggest you to understand the difference of the use of the leverage of the ARPU is to do a calculation looking at the amount of net debts and the growth of revenue not year-on-year, and quarter-on-quarter. If you have four time net debts you should grow four times revenue. If it doesn't happen, the risk is that your ARPU diluting or we are spending too much in terms of cost acquisition.

What I mean, our focus is not to increase the amount of customer at any cost as we mentioned in the past. We don't think that is right for our shareholder to get customer with -- postpaid customer with BRL20 ARPU, because it's up and also during the pandemic period that there were some (inaudible) some auction, sorry, in some area where you were able to get sometimes up to 1 million customer with the BRL10, something closely with 20 giga because this is something that then will disappear.

I think as I mentioned during my speech, we are not looking for shortcuts that allow to show wonderful number in a quarter. We think and I think that the number that we are posting are showing that, that our strategy from volume to value is allowing us to guarantee the growth of revenues to keep a level of margin that is the highest in the market. So we will not accelerate just to post the better net debts. We think that we will continue to post positive net debt during all 2021 that we will continue to be able to improve ARPU also because customer are asking for more data. And this is the way to monetize our investment.

This is (inaudible), I repeat from volume to value, we will continue to be our mover, we will continue to work to improve the quality. We have shown in the presentation that we were able to reduce the 1 percentage point, the level of churn. We are growing on ARPU not only year-over-year but also quarter-over-quarter. So I don't want to look at just one KPI, but I would like to give a look at the overall picture of our strategy. I don't know if it was clear, Diego.

## Q - Diego Aragao {BIO 17889908 <GO>}

It was, Pietro. I guess it makes sense. I mean, it's more about thinking on this strategy to shift from volume to value. It makes sense. I mean it indeed brings you an interesting client base. And I guess maybe a follow-up question on this point and also on Marcelo's question related to partnerships, I guess, we are seeing TIM seeking to create, let's say, a kind of acquisition with partners like C6 Bank in order to leverage this relationship with quite interesting client base as we were talking about and also leverage on the network and connectivity.

So I am wondering what are the possibilities for you going forward. I mean, I can see IoT, financial service, customer relationship, but -- and customer experience, sorry, but I would like to understand how fast TIM can move on those new initiatives, as well as what are the main goals for you in the next three years in order to improve the monetization of your customer base? Thank you.

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

Thank you, Diego. Again, what we build? You're right. We are trying to create an ecosystem where the key element is the customer is the key element in this strategy, both for our core business, both for new sources of revenue. This is the reason for which we are working to increase the level of loyalty of our customer on the core business. Once we have a customer that is satisfied with the quality of our network, the price of our offer, the giga that he has in our offer and the quality of service that we are offering them, he will be happy to stay with us.

So it's easier than to use the same customer base as a new way to create new value for us and for our shareholder. How? In some other way. We have a lot of digital start-up or other company that are looking for a fast grow in terms of customer base. We have already 50 million customer. So the use of TIM as a sales channel in some way is a shortcut if you wanted to grow fast. And also all the digital company know that Brazil is different from the rest of the world.

In Brazil, the penetration of credit card is not at the same level that we have in the other country of the world. So have the possibility to charge the customer through a bill or through a prepaid recharge, have the possibility to have a customer management through our call center, have the possibility to use more than 2,000 shops throughout the country to show something is a value. And company that want to exploit these value are more than welcome to do partnership with us.

This is something that we did with C6 and we are trying to replicate and we have in our pipeline other two or three partnership like that in different area from distance learning, do telemedicine to other kind of services. But I think that this is a trend. And again, when we look for benchmark, sometimes what's happening is that we don't have benchmark because the Brazilian characteristics are completely different from the rest of the world.

In the meantime, the know-how that we have on our customer base in terms of customer behavior respecting all the LGPD rules, it's huge. And our company that are looking for the

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possibility to exploit that geo-localization, customer behavior in the payment, and this is something that we have already shown, we have mentioned, some of the contracts that we already signed.

What we can expect in the next three years? This is something that we will show you in number also that 1st of March during the TIM Day, that we will show you better that we are expecting a contribution to the growth of our revenues coming from this kind of services. And the business model that we are putting in place is something similar for some of these deal with what we did with C6, a remuneration for the sales activity or the go-to-market activity and the participation in the stocks of the company in case of quotation.

Coming back to IoT, and this is the opportunity also to explain why perhaps sometimes we are more vocal on SA. We strongly believe on the IoT business model. This is not the case whether we started in advance compared to the other player. You know that we are the player with the widest network narrowband IoT that is already leveraging the 4G network for that.

We are market leader in the agro business. I can say that we are also market leader in the car manufacturing. So moving toward SA is the possibility for us to exploit these market position to move to the next step. That is the possibility to habilitate a lot of new sources of revenue. Sometimes we try to explain better, how we foresee the 5G with SA. I'm used to compare to the application store of Google and Apple.

Ten years ago, they put in place an ecosystem where no one very well remind the amount of application that could be developed. But if you didn't put that in place, this application will be never developed. We think that putting in place an SA 5G network will allow to develop an ecosystem mainly in Brazil that has no limits in terms of possibility of new sources of revenues. Again, perhaps I can see -- I can see a little dream about this is true, and again, what we are able to do in less than nine months because right to remember [ph], we started to discuss about new sources of revenue in March of 2020 with two PowerPoint chart. Everybody were asking us, what is the benchmark, and do we know the truth that I'm proud to say that now we are the benchmark.

**Q - Diego Aragao** {BIO 17889908 <GO>}

That's super helpful, Pietro. Thank you for the explanation.

**A - Vicente Ferreira** {BIO 18854359 <GO>}

Thank you, Diego. This is Vicente speaking again. We now move to the next question that comes from Maria Azevedo from Santander Bank. Please, Maria, get ready. We will unmute you and you'll be able to make your question. Thank you. Maria?

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

Hi, sorry. Good morning, everyone. Thank you, Vicente too. So another question on 5G. How are you going to see the 5G opportunity for TIM in terms of the fixed wireless access and also on consumer mobility? I mean, you have all those upsides on industrial

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automation and IoT, but do you see room for ARPU growth on the back of 5G for ARPU? That will be my first question. Thank you.

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

Okay. Thank you, Maria. For sure, again also thank you to you because you allow me to put on the table something that was missed in my previous speech, that perhaps is one of the first business model on the traditional core business that can justify at least a part of the investment on the 5G, that is the fixed wireless access.

We are testing in these days in three different area with 5G DSS already the fixed wireless access functionality. If you remember, we have been working for three, four years on this so-called WTTx, that is let me say the old father of the fixed wireless access just to improve our learning curve. Brazil is a country in which fixed wireless access will be a good alternative to FTTH. It doesn't mean that it's better of FTTH, as FTTH is not the only solution.

What we mentioned is a scenario in which you will have FTTH coverage and fixed wireless access coverage. We are starting in details where it's more convenient the one, the first or the last. And we think the TIM is the player that is best positioned to exploit this kind of opportunity because we have no legacy. We don't -- we are not scared that we are going to cannibalize -- existing services both on consumer or on business side because fixed wireless access put under discussion, sometimes also leisure line [ph] solution, ultra broadband solution for small and medium companies, so on and so forth. So, we believe, we strongly believe that fixed wireless access is business model in Brazil that is a complement to the FTTH solution.

And with the new company that we are creating to further accelerate FTTH and fixed wireless assets using the 5G technology, we are the player that can exploit the most this situation. Then again, moving on the 5G on mobile, I think -- but in any case, we are looking and we are starting because also throughout the world, you don't have so many use cases to do a right evaluation.

In the short-term, the 5G ARPU increase will be much more driven by a further acceleration of the data consumption, that's not from the possibility to put a different price for 5G. Again, we are still at an early stage of the analysis of this opportunity. But if you ask me, what we foresee is that fixed wireless access for sure will be an opportunity. On the mobile, 5G could be an accelerator of data consumption increase, and we must be clever enough to transform these data increase in ARPU increase and so data growth monetization.

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

Okay. Thank you, Pietro. And my second question would be on the more short-term. How are you seeing the competitive landscape in the coming quarters? Do you see room for price increases in 2021? And now for the mid-term like with the early signs of market repair, should we also see lower industry churn in a more healthy environment?

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

About the environment and possible price up. I think that I'm receiving at my home several bill from different utilities also from pay TV services that are already doing the price up related to what's happened. Keep in mind that the trend that I'm experiencing in the Brazilian market is that everybody are telling that the theoretical price up should be aligned with IGP-M, but they will do something lower.

So for example, in some of my bill [ph], instead to have an increase of 23.5%, they are putting something close to 9%. This is something that I'm experiencing also in the ultra broadband environment. So I think that this is something that we will apply. On the mobile side, what we will do is to follow the traditional more for more approach. We will proceed with a price up. But in the meantime, we will put more giga for our customer because it makes a lot of sense. We are discussing about customer satisfaction. But in the meantime, we have to guarantee to all our shareholders the right return on investment and the way to reduce customer cleaves of misperception is through the more for more approach.

I can talk for TIM for sure because again, then I'm unable to know and understand, what will do the other telco players. Then about the next step, what they think is that in the next year, we will have a competition, because -- again it's important to state, we will continue everybody to compete because this is what we are paid for. This is what is important for the customer that -- but the difference could be that there could be a more clever competition base in the capability to offer the best quality at the best, at right price for the customer that we think that is something that's very useful for the customer. But in the meantime, in a rational way that we will guarantee, the return on the investment that we can guarantee the improvement of the quality of the service in a so huge country as Brazil. So it's not a country, it is a continent.

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

Okay. Thank you very much, Pietro, and congrats for the numbers.

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

Thank you.

**A - Vicente Ferreira** {BIO 18854359 <GO>}

Thank you, Maria. Now we'll move to the next question that comes from Cristian Faria from Bank Bradesco. Please Cristian, we will unmute you, and you can make your question. Thank you.

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

Hey. Hi, everyone. Can you hear me well? Hi. Can you hear me?

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

Yes, Christian. We are able to hear you.

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

Okay. Okay. Good morning, everyone. Thanks for taking my question. I had two related to the FTTH spin-off that will take place in the first quarter. The first one is related to the start of the journey, if you can share information regarding the primary offer and the secondary offer if the company aims to sell just one part or just take the money to -- in order to improve the growth and invest -- continue to invest in the growth of the FTTH deployment?

And second, since the company has already post like 33,000 net adds per quarter, and what should we expect in those growth looking forward, if the company seeks room to continue to grow this number? And what should be the strategy in terms of regions? Thank you.

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

I'll leave the stage to Adrian to give you more details. He is leading all this process. But let me point out one element that sometimes we forget that in our explanation. We are the only player with no legacy base on fixed network. This is really important because if we increase the coverage with the project that Adrian will illustrate we will have all delta revenues, while other players have some more problem related to the fact that having an existing customer base. The difference is that they can have also a delta [ph] compared with what they already have. I think that this is an important point that show as our return on investment on FTTH could be completely different from the return on investment of player that they're already in place in existing network. Adrian, please?

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

Yeah. Thank you, Pietro. Regarding the FiberCo project, as we mentioned, we are in this final phase. We received several offers, and so we are really satisfied with the evolution of the project. We are targeting to reach a signing by the end of March, probably in the first weeks of the second quarter. But the most important thing is that what we saw is a lot of interest coming from different parties.

Specifically in your question, for us this is an industrial project. It's not a financial project. So what we are looking for with this spin-off, with this FiberCo project is to evolve on our fixed ultra-broadband business because we see that there are a lot of opportunities as we saw in the last three years, that we are growing on revenues on something between 25% to 30% year-on-year always with our fixed ultra-broadband. We feel that there is still opportunities there. We need to continue to deploy our networks, and for that that's the matter of this project. So this said, we think that there will be a primary and secondary proceeds. We need to be very equilibrated on this -- always looking at the industrial side of the project.

So again we are on the final stage of the process. Probably we can give you additional disclosure at the beginning of March in our TIM Day, when we will be communicating our plan. But we are honestly very satisfied with what we have so far.

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



Okay. Thank you.

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

Thank you, Cristian.

**A - Vicente Ferreira** {BIO 18854359 <GO>}

Thank you, Cristian. Now we'll move to the next question that comes from our chat. The question comes from Felipe Cheng from Credit Suisse. And I'll read for you guys.

Can you please comment on what was the main reasons for a sharper decline in prepaid revenues versus the previous quarter? What do you expect in terms of prepaid grow for 2021? Could we see a negative impact coming from lower government aids? Thank you, Felipe. Please, Pietro and Alberto.

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

Hi, Felipe. Thank you. First of all, what's happened related to the fourth quarter, if you divide the fourth quarter into three months, the concentration of the decline was mainly in December. As you remember December in Brazil for the prepaid mainly the buzz was a month with an higher level of seasonality. In some -- usually just to share with you the level of recharge during the month start with the first 15 days higher, second 15 days lower.

December was an anomalous month because due to the (Foreign Language), I don't know how to say that in English, you have the first 15 days high and the second 15 days high because it's like the people will get two salaries. What's happened is that this year the seasonality of December was much lower compared to the previous year and the concentration was exactly in the last 15 days of December. Some of the explanation that we have shared internally was also related to the fact that the so-called (Foreign Language), a lot of company paid previously during the year to support part of the necessity of their employees. So we don't think that this is something that will be or will continue during the year.

About the (Foreign Language) I leave the stage to Alberto with which we are sharing in these days an in-depth analysis to understand (Foreign Language) was an offense or about that. But I leave Alberto the possibility to explain.

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

Well, a few comments on this. When we look at the outlook for 2021 for this year, there are a number of factors that need to be considered. The first one is that what we believe is that telecommunication is more important to customers that it was one year ago. And this is clearly a mitigating factor in terms of the trend for this year, meaning that when you look at the trade-off of telco versus other products, especially for prepaid, we see prepaid in a better position this year than it was one year ago.

When we try to correlate the effect of -- I think, there are two main factors here impacting the trend of prepaid recharges that are the (Foreign Language) and the lockdown that

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came back into action this year especially in some states. When we look at the correlation of the (Foreign Language) it's difficult to say that there is no impact at all. We will (inaudible) about on average a \$30 billion that the government put into the economy over the last nine months. Even though, over the last three months, this number was lower.

The first step down in this amount was in October and that we didn't see a material impact. As a matter of fact, the number of recharges, rechargers and the people who recharge have been growing last year after the first cut. And when we look at what is happening in January, we see a limited correlation. We see more correlation with lockdown in specific states. So when state goes locked, we see that the recharge tend to decline primarily because people are at home in our view and use more Wi-Fi that they don't have a need to recharge. So I think that these three elements, the top of mind of telcos locked down and are more relevant rather than the (Foreign Language) itself.

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

But our view for 2021 is positive also on the prepaid.

**A - Vicente Ferreira** {BIO 18854359 <GO>}

Thank you, Felipe. So with this question, we are finishing our Q&A session, and we will move to the closing remarks of our CEO. Thank you very much.

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

TIM Brasil once again showed it has a very solid fundamentals. We continue to deliver on the promises we make and we have a very clear strategy to guide our actions. As I always say, being focused and agile are key to reaching our goals. As I do every quarter, I really like to thank the dedication and commitment of our team with overcoming great challenges and delivering great result. (Foreign Language)

Thank you for participating in our conference call. Stay safe and healthy. I hope we can virtually meet soon in the coming events we will be doing with the financial market. Remember on the 23rd, we will be disclosing the update of our industrial plan. After the Telecom Italia Group event on the 24th, we will host a TIM Brasil Day on 1st of March to go into more details of our plans going forward.

**A - Vicente Ferreira** {BIO 18854359 <GO>}

Thank you, Pietro. So now we can conclude our fourth quarter results conference. For further information and details of the company, please access our website at [tim.com.br/ir](http://tim.com.br/ir). You can disconnect from now on. Thank you.

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