

TELEFONICA BRASIL S.A.
Form 6-K
March 13, 2019

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE
SECURITIES EXCHANGE ACT OF 1934**

For the month of February, 2019

Commission File Number: 001-14475

TELEFÔNICA BRASIL S.A.
(Exact name of registrant as specified in its charter)

TELEFONICA BRAZIL S.A.
(Translation of registrant's name into English)

Av. Eng° Luís Carlos Berrini, 1376 - 28° andar
São Paulo, S.P.
Federative Republic of Brazil
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes

No

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Yes

No

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TELEFÔNICA BRASIL S.A.

MANAGEMENT'S REPORT

Dear Shareholders,

In accordance with legal and statutory provisions, the Management of Telefônica Brasil S.A. ("Telefônica Brasil", "Company" or "Vivo") hereby submits for your appreciation the Company's Management's Report and individual and consolidated Financial Statements, together with the Independent Auditors' report and the opinions of the company's Board of Directors, Fiscal Council and Audit and Control Committee for the year ended December 31, 2018.

1. Message from Management

In the last two years, we have speeded up Vivo's digital transformation process. I have no doubt whatever that we are making a marked contribution to Brazil's entry into the digital world. We ended 2018 with 3,100 cities covered by 4G technology, plus a thousand cities with 4.5G technology, which makes it possible to transmit data at even faster speeds. More than 88% of Brazil's population already has access to Vivo's 4G networks. On the fixed front, we continued to expand at the same pace and took our fiber network to an additional 30 cities. This is by far the greatest expansion in terms of fiber networks achieved in Latin America. We ended the year with more than 19 million Brazilian households equipped to use Vivo's fiber network, 9 million of which through the FTTH (fiber-to-the-home) technology.

Even in a year marked by uncertainties, we are able to present a consistent financial result to our shareholders, partners and employees. We moved up to a higher level of profitability, achieving a recurring EBITDA margin of 35.8% in the year, at the same time as consolidating 3 straight years in a row of cost reduction. Our revenues have also increased, and we were able to further boost our profit and cash generation, enabling us to declare record earnings to our shareholders in 2018. All of these achievements were made possible, in large part, due to a robust digitization process, which permeated every one of the Company's areas, together with a never-ending focus on the quality of our services.

We will continue this strategy in 2019, now guided by **#RECONNECTA** - the Company's new program that is focused on growth and that will guide our actions over the coming years. A new way of portraying what we already do, and one that we believe to be Telefônica Brasil's future. **#RECONNECTA** provides a formula that aims at growth, by strengthening a company's **relevance** in the market and before its customers; a Company that registers increasing **revenues** and produces **returns**, whilst at the same time remaining socially **responsible**. All this as a result of our employees' **motivation**. I will now go on to give a brief

description of our performance on each of these fronts.

i) RELEVANCE - We are convinced that connectivity is the lifeblood of the digital world. In order to continue providing our customers with the best connection options, we are going to invest R\$26.5 billion between 2018 and 2020, as we announced at our Investor Day in March 2018, when we celebrated the 20th anniversary of our listing on the New York Stock Exchange. This amount will be focused on increasing our differentiation by uniquely expanding our fiber and 4G infrastructure. In fact, out of the amount announced, roughly R\$7 billion will be reserved for the expansion of the fiber network. In 2018 alone, we added 2 million homes that are now able to receive our fiber services. At the end of 2018, 9 million homes were able to receive our fiber-optic services and by the end of 2020 they will be 15 million.

We have also moved forward in relation to offering our customers a differentiated digital service. We have invested in both Artificial and Cognitive Intelligence and launched Aura, which has provided our users with a new experience, helping them manage their digital lives in real time, transforming data into customized information for each client.

In addition to the digital service experience, we are attempting to win our customers over with Vivo's new stores, with a connected, flexible, technological environment, and with a collaborative and integrated atmosphere. Over the course of this year, this store concept should be replicated throughout Brazil's Northern and Northeastern regions.

The proximity to our consumers has also been reflected in our campaigns. We proposed that people live less of the same, and rethink 2018 with less prejudice and more empathy. We have launched a new institutional position, *#Temhorapratudo*. With it, we invite people to reflect, without judgment, on the best use of technology. Every connection, whether technological or not, has its time and must be lived in its entirety.

ii) REVENUE - In addition to maintaining our focus on growing our customer base and monetizing our data connection services, we are continuing with our strategy of enhancing our offer with digital content. For the residential segment, we signed partnership deals with a number of key global content players such as NBA, NFL, TIDAL, Amazon Prime Video and Netflix, among others, boosting our revenue and making us more relevant to our consumers. In the corporate segment, we redesigned the offer portfolio in order to increase the added value of our voice and data products and we made progress with our strategy of operating in digital services. We want to help our business customers transform their businesses. In partnership with Ericsson, Raízen and EsalqTec, we will promote the technologies that will put agribusiness in the world of the Internet of Things (IoT), supporting us in the open innovation ecosystem. In 2019 we will carry on with more automation and greater agility in the corporate market.

iii) RETURN - Digitization and simplification initiatives played a crucial role in increasing our profitability and cash generation and resulted in savings of R\$400 million in digitizable costs in the year. Our EBITDA margin also continues to make progress. Over the last three years, our recurring margin has increased by more than 5 percentage points, posting a 35.8% figure in 2018. The result is a reflection of the Company's strategy to focus on higher value business, such as post-paid plans, expansion of the fiber network, the launch of new services for the residential and corporate audiences, coupled with strong financial discipline. We will continue to try to increase the Company's margin and optimize our investments in high-return projects such as the new cities with FTTH and investments in 4G and 4.5G coverage and capacity, while reducing investments in obsolete technologies.

iv) RESPONSIBILITY - We are committed to our business' sustainability. Our reputation is a key element in our success as a responsible company. We are the leaders in a number of RepTrack indicators (a global ranking that measures the reputation of the world's largest companies). On the environmental front, we were the first operator to use 100% renewable energy sources, which directly contributed to reducing our carbon emissions by 64%. Once again, we retained our position in the B3's 2019 ISE (Corporate Sustainability Index) portfolio.

We also made progress with the Telefônica Vivo Foundation in education and voluntary work projects, which in 2018 registered a record level of participation, with more than 7,000 employees and 75,000 people from 45 cities, and entrepreneurship projects, by means of the concept of educational innovation. We helped roughly 1.7 million people last year, with investments of R\$60 million. For 2019, which celebrates the Foundation's 20th anniversary, we expect this figure to rise to R\$75 million.

We made a lot of progress this year regarding Diversity. We are working so that the entire Brazilian plurality is represented at Vivo. We believe that an innovative and competitive company is a diverse company. Last but not least, we invited society and the government to discuss the impacts of technology on people's daily lives, the right to privacy, and digital security, with the launch of the Manifesto for a Digital Pact.

In appreciation of our HR practices, we were recognized as one of the 20 best companies to work for in the Large Business category at the 22nd edition of the Great Place to Work Awards. We are also among the three best companies to work for, in the Information Technology (IT) sector, in the ranking drawn up by Great Place to Work and published annually by IT Media. And to end the year, we were listed as being one of the best three companies in the category of over 17 thousand employees, according to the ranking “Best in People Management 2018”, promoted by the newspaper Valor Econômico.

We are looking to achieve more in 2019 - We are pleased with our achievements in 2018, but we know that we have many challenges ahead. We will continue to expand our fiber and 4G and 4.5G networks at a rapid pace, and we will work to make our company-oriented business ever more synonymous with the idea of a digital partner for small, medium and large sized companies with a portfolio of differentiated services offering unparalleled quality. We are committed to building a digital Brazil and to this end we will maintain our historic levels of investments. On the other hand, we need some of the barriers on the regulatory front to be revised in order to be able to move even further forward.

Last but not least, I was honored by the invitation from the Telefónica Group’s Chief Executive Officer, José María Álvarez-Pallete, to take on a new strategic role in the group and to help it with building an even simpler, more digital and totally people-oriented business. I feel that I am stepping down as CEO of Telefônica Brasil having achieved my mission and I am happy to pass the baton to Christian Gebara, a professional and a leader who I admire and who has an in-depth knowledge of the Company. We have been working side-by-side in recent years and Christian is the right executive to continue the growth and digital and cultural transformation that is underway at Telefônica Brasil. Finally, I would like to thank all the staff for their dedication and commitment over the last two years. In addition, many thanks to all of our customers, partners, and finally all the stakeholders with whom I have had the opportunity to interact during these two years.

Eduardo Navarro

Telefônica Brasil’s Chief Executive Officer in 2018

2. Economic Context and the Telecommunications Sector Context

2.1. Economic Context

The Brazilian economy continued its gradual recovery in 2018, although it faced challenges along the way, both domestic and foreign. The international scenario has become less favorable for emerging economies amid the normalization of monetary policy in the advanced economies and the trade tensions between the United States and China. This contributed to a reduction in global liquidity and an increase in risk premiums. On the domestic front, the year was marked by two major challenges: firstly, the truckers’ strike, which paralyzed a number of segments during the second quarter of the year and had an impact on economic activity, and then secondly the presidential election, which generated a high level of uncertainty in the face of a polarized contest in which the liberal bias candidate, Jair Bolsonaro, came out victorious. This was positive for the prospects of continued economic reforms throughout this new presidential cycle. The monetary policy environment has remained favorable, with a benign outlook for inflation, which should

allow low interest rates for a longer period of time. The so-called Selic rate, which is Brazil's basic interest rate, ended the year at a record low level of 6.5%. However, there are risks on the radar that need to be monitored, such as a deterioration in the external scenario and the new president's governability, which could have a negative impact on financial assets.

On the fiscal front, the cumulative 12-month public sector primary deficit decreased to 1.6% of GDP in 2018, against 1.7% of GDP in 2017. The improvement in the result was due to increased revenue, which was positively affected by the upturn in the level of economic activity, as well as improved control of expenses. The result was significantly better than the stipulated target for the

year (a deficit of 2.3%). Nonetheless, gross debt rose from 74.2% in 2017 to 76.7% in 2018. However, the nominal public deficit fell from 7.8% of GDP to 7% of GDP, under the same comparison basis, as a result of the drop in interest rates.

Inflation accelerated in 2018, in both the retail sector as well as the wholesale sector, but the increase was more pronounced in the latter, influenced by the hike in the US dollar and rising fuel prices. Notwithstanding this acceleration, retail inflation remained at a low level, on account of the gradual pace of the economic recovery and modest expectations. The IGP-DI, the General Price Index - Internal Availability, calculated by the Getúlio Vargas Foundation, registered an increase of 7.1% in 2018, after having dropped 0.4% in 2017, reflecting the increase in the IPA-DI, the Wholesale Price Index, which rose 8.8% in 2018, after having fallen 2.5% in 2017, and the acceleration in the Consumer Price Index (CPI), which increased 4.3% in 2018 against 3.2% in 2017. The Extended Consumer Price Index (IPCA), calculated by the IBGE (Brazilian Institute of Geography and Statistics) and used by the Central Bank of Brazil as a benchmark for its inflation targeting system, posted a 3.7% increase in 2018, which is a 0.8 percentage point hike against 2017 (an increase of 2.9%), coming out below the inflation target and above the lower limit (4.5% with a tolerance interval of between 3% and 6%).

In light of the benign inflation scenario, the Monetary Policy Committee (Copom) maintained the basic interest rate at the lowest possible level, reducing it from 7.0% at the end of 2017 to 6.5% at the end of 2018. If we deduct the cumulative inflation in the year from this rate, we get a real interest rate of 2.8%, versus the 4% figure booked the year before.

The domestic environment in 2018 was marked by political uncertainties on account of the presidential election, while the external environment gradually became less favorable for emerging economies, with the normalization of monetary policy in the advanced countries and the trade tensions between the US and China. This scenario led to a depreciation in the Real over the course of the year, ending 2018 at R\$/US\$3.87 (against the rate of R\$/US\$3.31 seen at the end of 2017). This meant that the *Real* depreciated 17.1% in relation to the previous year. The average exchange rate for the year, of R\$/US\$3.66, was 14.5% higher than the average observed the year before.

The foreign trade figures remained favorable in 2018. Brazil posted a US\$53.6 billion trade surplus in 2018 (by comparison with the US\$64.0 billion figure seen in 2017), reflecting the greater increase in imports against exports, which were up by 21.0% and 10.0%, respectively. This contributed to an increase in the current account deficit of 0.8% of GDP in 2018, versus 0.4% at the end of 2017. In terms of the country's international reserves, Brazil ended the year with US\$387.0 billion, compared to US\$382.0 billion seen at the end of the previous year.

Economic activity continued to recover gradually in 2018. The truckers' strike, which had a negative effect on economic activity in the second quarter, shook confidence levels, which had their recovery hindered by the electoral process that followed. Therefore, consumption, investment and hiring decisions may have been postponed. However, the more favorable financial conditions, resulting from the benign outlook for inflation and which favor low interest rates for a longer period, have contributed for consumption and investment to be the main drivers of growth on the demand side. It is estimated that GDP grew by about 1.3% in 2018¹, after the 1.1% result recorded in 2017.

2.2. Competitive Scenario

Influenced by the country's economic activity, which continued to recover in 2018, the telecommunications market² was able to slow down the drop in revenues that was seen in the previous three years. However, it still presented difficulties for expansion (a 0.6% reduction in

1 Market expectation according to the Focus Bulletin.

2 Takes into account the operators Vivo, AMX, Oi, TIM, Sky, Nextel and Algar CTBC.

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9M18³). Given this situation, operators attempted to gain market by intensifying competition in terms of prices and providing their consumers with greater differentiation and innovation.

In the Fixed Market, Broadband remained the highlight, with a consistent increase of accesses (an increase of more than 2 million connections during 2018⁴). The migration to higher speeds continued to be significant, particularly for Ultra-Broadband, with speeds of more than 34Mbps, which ended 2018 with a mix of 28% of the base (versus 15% in December 2017⁴). This search by consumers for greater speed allowed the consolidation of a group of small regional providers as an important player in this market, given that they managed to capture repressed demand in underserved locations. The major operators, for their part, disclosed investment plans focused on expanding the latest-generation network (mainly Fiber) in response to customers' needs.

With regard to the Mobile market, the operators remained focused on the delivery of coverage and better access quality, adapting their infrastructure on account of the growing demand for data. The number of municipalities with 4G technology coverage increased from 3,871 in December 2017 to 4,429 in December 2018⁵, and this is now available to more than 95% of Brazil's population (versus 93.3% at the end of 2017). Commercial offers highlighted the

increase in the volume of data offered, coupled with the greater availability of Value Added Services and access to mobile applications, at the same time as there was a trend towards price maintenance ("more for the same"). The attractiveness of recurrent offers implied the continuation of a significant migration of prepaid subscribers to post-paid and control plans.

The dynamics of the sector confirmed digitization as an important lever in 2018. The country's main operators reported initiatives in the interaction with customers, such as e-Commerce and e-Care, in search of differentiation and greater customer retention. At a time when the telecommunications market sees its revenue growth under pressure, gains in cost efficiency were key to the profitability of operations.

Telefônica Brasil maintained its record of delivering significant results throughout the year. In the mobile business, it remained in the lead in the post-paid segment, with the market's largest mix of high value customers, as a result of its commitment to quality and to delivering innovative solutions. In the fixed business, the year was marked by the expansion of its Fiber network (FTTH) to an additional 30 cities, reinforcing its position as the Brazilian operator with the greatest coverage in terms of the latest generation network. On the whole, the Company's businesses sought to offer their customers better quality and speed in relation to products regarded as premium ones in the global telecommunications market (Fiber Optics and IPTV).

2.3. Regulatory Environment

On the regulatory front, important public consultations for the sector took place. The main regulatory issues on the agenda of Telefônica Brasil, Anatel and the Federal Government agenda are listed below.

Conduct Adjustment Instrument (TAC)

In March 2018, Anatel's Administrative Board denied Telefônica Brasil's appeal to reverse the value of the fines that were included in Administrative Proceedings that would be time-barred in April and which were part of the Conduct Adjustment Instrument (TAC).

The TAC involved fines which added up to roughly R\$3 billion in original amounts (not-restated). However, approximately R\$400 million was deducted from this amount in order to avoid the statute of limitation. Due to the imbalance caused by the exclusion of the proceedings judged by Anatel and the impossibility of committing investments for a longer period, while waiting for the final

3Source: Anatel.

4Source: Anatel.

5Source: Teleco.

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approval of the agreement, Telefônica notified the Agency that it would reassess the conditions of the TAC.

On April 25, 2018, Anatel's Administrative Board decided to dismiss the proceedings that established Telefônica's TAC. The measure complied with the Agency's technical area's recommendation. As a result of this decision, the Company is prevented from negotiating similar agreements that involve the same set of infractions.

The amounts of the fines are once again payable to by Anatel, but Telefônica Brasil may appeal to the courts for charges that it considers to be undue.

New Regulatory Framework for Telecommunications

Supplementary Bill of Law - PLC 79/2016, which deals with the Regulatory Framework for Telecommunications, was approved by the Science, Technology, Communications and Information Technology Committee of the Federal Senate on November 7, 2018. The aforementioned Committee also approved a request for urgency for the matter, which was then forwarded to be considered by the Plenary Session.

Up to November 16, 16 amendments had been put forward. On December 21, the president of the Senate sent the project back to the Science, Technology, Innovation, Communications and Information Technology Committee to examine this set of amendments. As a result, the process will remain pending until February 2019, when the new legislature takes office.

Revised Concession Agreement and PGMU (General Universalization Targets Plan)

The decree of the PGMU for the period 2016-2020 was published on December 21, 2018. This version of the PGMU incorporates a reduction in blueprint of public telephones and an extension of the deadline for the installation of fixed lines. Part of the resources should be applied to wireless networks for the provision of STFC (Switched Fixed Telephony Services), with broadband support by means of fourth generation (4G) or higher technology, a requirement that may give rise to questions.

General Competition Targets Plan (PGMC) and associated standards

On July 12, 2018, Anatel approved the new Interconnection Regulations - Resolution No. 693/2018, which determines the simplification of existing voice interconnection modalities with the end of the categories established in the previous resolution and the introduction of rules for data interconnection. In data interconnection, the Agency requires that all concessionaires or holders of Significant Market Power (PMS) provide data interconnection points in all number areas.

On the same date, the Agency also approved the revised General Competition Targets Plan - Resolution nº 694/2018. The regulations establish a new relevant market (high capacity data transport) and introduce the concept of competitiveness levels of retail offers for each municipality (ranging from category 1 - fully competitive - to category 4 - where even with incentives for competition the provision of services is not

feasible without public policies). For each relevant market, the asymmetric measures may vary according to the competition category assigned to each municipality.

On July 26, 2018, seven acts were published in the Official Gazette (DOU), which define the groups that hold Significant Market Power for the relevant markets of the new PGMC. 2018 also saw the publication of the acts with the reference values for all the markets.

Spectrum Allocation

On May 8, 2018, Anatel's Administrative Board approved the 2018 edition of the Plan for the Assignment, Allocation and Distribution of Radiofrequency Bands in Brazil. This document consolidates and sets out the main rules for use of the band-to-band spectrum and incorporates the Agency's most recent decisions regarding the management of radio frequencies.

Anatel also held public consultations regarding regulations in terms of the conditions of use of the 2.3 GHz and 3.5 GHz bands (in August 2018 and November 2018, respectively). Both consultations presented, among other elements, the proposed allocation of the bands to the SLP (Private Limited Service) on a primary basis. Telefônica Brasil made contributions to the aforesaid public consultations, arguing that restricted interest services (such as SLP) should make use of these bands on a secondary basis. Allocation on a primary basis could reduce the options for expansion of services aimed at serving a large portion of the population.

Collection of Subsidies: 2.3 GHz and 3.5 GHz

On August 31, 2018, Anatel's Spectrum and Orbit Committee opened the Process for Collection of Subsidies in relation to the 2.3 GHz and 3.5 GHz bands. The questionnaire addressed aspects on the use of the aforesaid bands, possible bidding models and the implementation of networks, including possible interference problems. The complementarity between the 2.3 GHz and 3.5 GHz bands was also questioned, as well as that between these and other bands. The subsidies collected will guide the future bidding process of the bands.

New Spectrum Management Model

In March 2018, Anatel opened a public consultation with a proposal for reassessment of the spectrum management model. Among the topics discussed was the increase in the spectrum limit for the mobile operators. The proposal also intends to gradually outsource spectrum coordination at the national level and decouple spectrum management from the Regulatory Agenda, while maintaining the theme in the Tactical Plan and in line with the Agency's strategic objectives. In addition, greater participation in international forums (such as ITU-R, CITELE and others) is proposed, along with the creation of Radio broadcasting and Radio communication groups in Mercosur and the signing of agreements with neighboring countries in order to create an integrated system aimed at preventing and treating interferences.

One of the results of this process was the approval of Resolution No. 703/2018 by Anatel's Administrative Board, which establishes new maximum limits for radiofrequency spectrum:

- Bands below 1 GHz: up to 35% of the bands listed in the regulation;
- 1 GHz to 3 GHz bands: up to 30% of the bands listed in the regulation;

Both of the above limits can be extended to up to 40% upon competitive constraints aimed at efficient use of the spectrum.

Analog TV Switch-off and 700MHz Release

Switching-off of the analog TV signal is an essential action to activating LTE (Long Term Evolution) at 700MHz. Migration from the analog TV signal to the digital signal, which makes it possible to free up the 700MHz band for use by the SMP, is being implemented by GIRED (Group for Implementation of TV and RTV Channels Distribution and Digitalization Process) as per the schedule established by MCTIC. The first city to have the analog signal switched off was Rio Verde (in the State of Goiás) in February 2016, followed by Brasília (the Federal District) on November 17, 2016.

In the cumulative period between 2016 and 2018, of the 1,379 municipalities that were expected to have their analog TV signal switched off, disconnection was confirmed in 1,362 municipalities

(including all the state capitals and the Federal District). The remaining 17 municipalities were switched off at the start of 2019.

At the end of 2018, 4,467 municipalities were allowed to activate the LTE in the 700 MHz band. By mid 2019, all Brazilian municipalities will be able to activate the LTE in the 700MHz band.

GSAC and Internet for Everyone

On March 12, 2018, the Federal Government launched the *Internet Para Todos* (Internet for Everyone) program, which is designed to provide broadband access to remote locations without connectivity. The program is an extension of the GESAC - Electronic Government Program - Citizen Assistance Service, which is responsible for connecting schools, hospitals, health centers, indigenous villages, border posts and *quilombos* in remote areas that have no other means of being included in the world of information and communication technologies.

However, the contracting of Telebrás by MCTIC to deploy the GSAC program, as well as the contract signed between Telebrás and the US company Viasat to operate the Geostationary Defense and Communication Satellite (SGDC), were subject to legal challenges by SindiTelebrasil, by SindiSat and by the company Via Direta.

During the year, the contracts were suspended and resumed in accordance with the successive legal determinations regarding the case. On October 31, 2018, the Federal Audit Court (TCU) revoked an injunction that prohibited Telebrás from providing broadband services by means of the SGDC for the GSAC and acknowledged the legality of the contract with Viasat. However, it ruled that this contract should be modified (on account of the fact that it understood that there was an imbalance in favor of the private company).

Structural Telecommunications Networks Plan (PERT)

In July 2018, Anatel held public consultations for the proposal of a Structural Telecommunications Networks Plan (PERT), which should guide public and private investments in broadband networks. The PERT be effective for 10 years, with reviews at each two years.

From the text of the consultation, the country needs to invest in six projects in order to expand access to broadband services: backhaul with fiber backhaul with high capacity radio in those areas where fiber are economically unfeasible; 3G or 4G coverage in districts other than municipal headquarters; 4G or 5G coverage in municipalities with less than 30,000 inhabitants; fiber access network in cities with fiber backhaul; essential public networks. Public resources that can be used for PERT projects are the balances of the PGMU (General Universalization Targets Plan), Conduct Adjustment Instruments (TACs), sale and renewal of frequencies and tax exemptions (these latter items depend on federal, state and municipal governments).

Public Telecommunications Policies Decree

The Federal Government published Decree No. 9.612 of December 17, 2018, which deals with public Telecommunications policies. This is the result of a process that goes back to October 2017, which was when the draft version was submitted for Public Consultation by MCTIC.

The new decree proposes a revision of the sector's regulatory framework and revokes three earlier decrees: Decree No. 4.733/2003, Decree No. 7.175/2010 (which created the National Broadband Plan) and Decree No. 8.776/2016 (*Brasil Inteligente*' Plan). Among other provisions, the new public policy:

- In its general objectives, defines the expansion of access to broadband services, digital inclusion, competitive market, an environment conducive to the expansion of telecommunications networks, and research and technological development;
- Assigns to MCTIC the detailing of the public policy's objectives and guidelines;

- Assigns to Anatel the implementation and execution of sector regulation, guided by the policies established by MCTIC;
- Establishes conditions for commitments set by Anatel as a result of the signing of the Conduct Adjustment Instruments (TAC) or the granting of radio frequencies;
- Authorize, by means of assignment, whenever technically possible and under isonomic conditions, the use of the federal administration's buildings, land and other real estate in order to facilitate the implementation of telecommunications infrastructure;
- Maintain Telebrás' current responsibilities.

2.4. Business Strategy

In keeping with the trend observed over the last few years, 2018 saw the continuation of a scenario of fierce competition in light of the continued decline in total accesses in the Brazilian telecommunications market. The one exception is Fixed Broadband, which was a major focus of investments and commercial activity and continues to show a solid expansion trend. Issues related to enhancement and expansion of quality and digital transformation have had a pronounced impact on operators' performance.

In view of this scenario, the Company's commercial strategy in the year was marked by intense launch activity and innovations in the mobile portfolio, for prepaid, postpaid and control customers, backed up by a consistent expansion of the network, with a focus on quality and technological evolution via LTE (4.5G). Also on the fixed services front, it is worth highlighting Vivo Fibras' broadband and TV offers, backed by major efforts aimed at expanding the fiber network (FTTH) in a number of the country's regions. In addition, in the company's quest to constantly improve the customer experience an ever-increasing amount of space was allocated to initiatives in terms of digital transformation and innovation in channels. Also worthy of mention was the brand's performance during the year of the World Cup, with campaigns during the period that used the motto #joguejuntos, helping to reinforce our role as an Official Sponsor of the Brazilian Team.

In the mobile business, Vivo continues to be the leader, with a 31.9% share of the market,⁶ and maintained its relevance and attractiveness by means of portfolio reformulation, introduction of new benefits and partnerships in all the segments.

In the postpaid business, which is one in which Vivo maintains a clear lead, there was a significant focus on the Family plans portfolio. As a differential, we added free international daily roaming in all the plans in this category, which resulted in a substantial growth in internet usage by Vivo's customers abroad. The Family plans' campaigns also reinforced speed and leadership, by means of 4G+, addressing current themes and new family compositions. In the digital segment, we used everyday good-humored language that is, with the launch of the web series "*Cacos de Família*" [Family Pieces].

In the prepaid business, Vivo brought relevant new developments for the customers, adding free access to Twitter by means of the Vivo Internet Social Networks packages. We launched a new offer, Vivo Giga Chip, with double the amount of internet for 6 months and unlimited WhatsApp and 15 days free of charge. We also communicated on TV and through our Digital options our Vivo Turbo offer with features such as 1GB of internet and unlimited WhatsApp.

We also redesigned the Control plans with more internet, unlimited off-net connections and new digital services. The Control plans' portfolio was widely advertised with a number of offers co-opted with smartphones and unlimited WhatsApp and featured extensive digital media strategy with a focus on

conversion.

Vivo also provided its customers with a major advantage by signing a partnership with Netflix to offer internet bonuses aimed at the portfolio of Family, Control and Vivo Turbo plans.

6Source: Anatel – December 2018.

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Concerned with meeting the needs of the different types of customers, Vivo also relaunched the Vivo Easy app, with a new model of offer of internet packages and daily rates for access to apps that charges no monthly fees and does not expire. We offered greater internet bonus per referral and, with the campaign “*Sua Vida no Modo Easy*” (Your Life on Easy Mode), we attempted to broaden our position as a disruptive digital operator.

In general, Vivo sought to reinforce its performance with quality and the institutional campaign 4G+ brought the messages “The new 4.5G generation with the quality that only Vivo can provide” and “*Experimente a nova geração 4.5G*” (Experience the new 4.5G generation). 4G coverage continued to advance in VoLTE (voice over 4G) and activation in 700MHz in a number of the country’s regions, with highlight going to the States of Rio de Janeiro, Rio Grande do Sul, Santa Catarina and Espírito Santo.

In line with the digital transformation trend, Vivo boosted the visibility and use of the *Meu Vivo* (My Vivo) app as a digital self-service channel. The campaign highlights the app’s main features, particularly the request for a second copy of the bill. The results were very positive with increased penetration of the Meu Vivo app, mainly among pre-paid customers.

In the fixed business, the offers were heavily focused on the ultra-speeds of Vivo Fibra 50 and 100 Mega, sustained by a pronounced effort in terms of national expansion of the fiber network, particularly in the States of São Paulo and Minas Gerais, Santa Catarina, Bahia, as well as in the cities of Goiânia, Fortaleza and Londrina. The number of cities with the FTTH infrastructure for Vivo Fibra rose to 121 in 2018.

From a commercial point of view, Vivo expanded the range of HD channels, overtaking the competition, and developed new offers and partnerships with major streaming services: we offer subscribers Amazon Prime Video for free for 3 months, being the first Latin American operator to make such an additional service offer. We also signed agreements to distribute NFL Game Pass in Brazil, the Tidal streaming app, and to grant discounts on movie selections on Vivo Play. Highlight also goes to the launch of the feature that enables subscribers to access Netflix directly from a channel of Vivo’s own decoder and the Smart Wi-Fi app that makes residential and corporate management of the network possible without the need for technical intervention.

In 2018, the campaigns began to occur together with Vivo TV and we brought more complete messages, with Internet and TV, always focusing on ultra-speed and stability. The messages highlighted launches such as in the “*Novas Cidades*” [New Cities] campaigns and the service differentials in the “*Destrave*” [Move On] campaigns, with the aim of encouraging customers to switch to Vivo Fibra.

Innovation was a constant factor throughout the year, especially in the physical and digital service channels. We expanded the number of stores with the “pick-up in store” offer, which is now present in 8 states and the Federal District. We also opened our first stores with the concept “Iconic Store”, focused on services, unforgettable experience in a premium and more humane atmosphere, in locations like the cities of Rio de Janeiro, São Paulo, Ribeirão Preto, Belo Horizonte and Brasília.

2018 also saw the launch of Vivo’s artificial intelligence Aura, simplifying and helping the customer to solve doubts about services contracted with Vivo, via voice or text.

Present in more than 20 service channels, with highlight going to the recent integration with Google Assistant, Aura provides the customer with a new relationship with technology.

At the end of 2018, Vivo launched the institutional campaign #temhorapratudo, in which it invites people to reflect on their relationship with their cell phones and their connections, encouraging a more conscientious use, so that we can actually take advantage of the best that technology has to offer.

Our Brand

In 2018, we maintained our strategy of positioning ourselves as an aspirational brand, without losing our competitive position and a commercially aggressive approach to the competition.

To connect people and to add a new perspective on technology, we drew on inspirational stories and a more striking opinion of the brand with the “*Menos do Mesmo*”(“Less of the Same”) concept.

As leader in its segment, and by tracking the movements within society, Vivo has taken the discussion about the use of connection to a new level. Using the “*Tem Hora Pra Tudo*”(“There’s a Time for Everything”) campaign, we invited people to reflect on their relations with technology and people.

To ensure differentiation and commercial appeal against the competition, we continued to strengthen our superiority in relation to the quality, coverage and speed of Vivo 4G+, the benefits of Family and Prepaid Plans. Another highlight was the ultra-high speed of Vivo Fibra, which was rolled out in 30 new cities with the strength and prestige of the Vivo brand.

Once again, we received a series of recognitions and awards that attest to the soundness of our brand. Vivo continues to rank among Brazil’s most valuable brands, retaining 9th place in the ranking published by consultancy firm Interbrand, with an estimated value of R\$2.3 billion. For the 10th consecutive year, Vivo was elected Top of Mind brand in the mobile phone and broadband categories in the reputable survey by the *Folha de S. Paulo* newspaper. Our commitment to customers has also been acknowledged, thanks to our recognition for the 15th consecutive time as Brazil’s most reliable telephony operator, according to the *Seleções* Magazine in partnership with Datafolha.

The Company was also highlighted in the market’s top rankings. Telefônica Vivo was elected the Company of the Year in the “*As Melhores da Dinheiro 2018*” ranking of the *istoé Dinheiro* magazine, in addition to sweeping the awards in the Telecommunications category. It was recognized as the best IT & Telecom company in the *Valor 1000* yearbook published by the *Valor Econômico* newspaper. For the fourth consecutive year, we took first place in the Telecom category in the *Empresas Mais* survey of the *Estadão* newspaper. We also received the 2018 *Empresas Notáveis* Award created by *Grupo Padrão/Consumidor Moderno* in the “Mobile Convergence” category.

Communication Plans and Campaigns

Vivo’s communication once again took center stage with a strategy that combines both positional messages that lead to greater connection and engagement with people, and commercial relevance using innovative approaches while focusing on the benefits of products and services.

To position Vivo as an increasingly human brand close to its user public, we launched the *#TemHoraPraTudo* Campaign emphasizing conscientious use of the connection. The campaign presents moments in which people notice that they are failing to live the moment because they are connected to their mobile phones; so they choose to put their mobile phones aside to live these moments to the full.

To strengthen the superiority of Vivo, our communication has focused massively on the 4G+ technology that offers customers 10 times more speed. The message was emphasized throughout Brazil, having also been rolled into products and services campaigns such as Family Plans.

In postpaid, we pushed ahead with the 4G+ Family Plans campaign whose concept was “*Viva mais as novas famílias e menos os mesmos planos*”(“Live new families more and the same plans less”). The strategy also contained a strong digital element, with the “*Cacos de Família*”(“Family Pieces”) project. The episodes play up the advantages of being a *Vivo Pós* customer, including: Double Play with Netflix, Spotify

and *Vivo Música*, Double Play with YouTube, Essential Apps (Easy Taxi, Cabify and Waze exempt from allowances), Vivo Travel (7 days free internet abroad) and free services for Dependents.

In the massive mobile segment, we launched a campaign to disclose the *Vivo Controle* plan with the “*Sua Vida sob Controle*” (Your Life Under Control) concept, drawing attention to the plan’s main benefits such as unlimited calls and WhatsApp, in addition to a fixed price every month and the most extensive mobile internet coverage in Brazil.

To attract new customers to the prepaid segment, we released the Giga Chip, which offers double internet, unlimited WhatsApp and 15 days free of charge. The prepaid segment also benefited from two digital campaigns: Digital Reloads, that seek to attract more customers with a bonus of up to 1GB, and the new 15-day *Vivo Pré Turbo* offering in which we announced a new 15-day allowance option that keeps our customers connected longer.

The retail segment was also very much to the fore in communication last year. Using a differentiated strategy under the concept “*Tem Tudo na Vivo*” [Vivo Has Everything], we began presenting Vivo as a connection point for customers wanting to buy a new smartphone, accessory or even take advantage of the tips from the Vivo Guru for their technology doubts, in order to attract more customers to our stores by highlighting the main products and services offered through this channel.

In the case of Smartphone launches, we produced over 30 joint campaigns with partner manufacturers like Samsung, with the S9 and Note 9 smartphones, Motorola, with the Moto One, LG with the G6 and Apple with the launch of the Xr and Xs iPhones. In addition, we continued the strategy of selling portfolio devices using the “*Smart Ofertas*” [Smart Offerings] campaign, in which communication was directed at the retail segment, digital media, OOH (Out of Home) and shopping malls of São Paulo.

In the case of Vivo Fibra, we continued with the campaign “*Destrave: mude para Vivo Fibra*” (“Move On: change to Vivo Fibra), which exploits the insight, identified in a survey, that broadband and TV consumers lead inertial lives and rarely reevaluate their operators. The campaigns also explore digital services, adding more innovation and leveraging new ways of consuming online content, offering our customers greater possibilities.

As an opportunity for winning over new customers, we also massively announced the arrival of Vivo Fibra in new cities, using a regionalized media strategy that included external media, trade, radio stations and local printed media.

In the case of the massive internet, we relied on a performance strategy in the online media that lasted the entire year and, from time to time, we advertised on outdoor media (billboards, bus stops, street clocks, etc.) speeds of up to 10MB in cities across the state of São Paulo.

The Vivo TV service was supported by an online performance campaign and outdoor media in São Paulo during the last quarter of the year, which produced good results.

In the quest to shadow the movements within society and the market, the new Vivo Easy was designed to meet the demands of the Millennials. Fully customizable using the app, Vivo Easy enables the customer to choose the amount of internet allowance they wish to purchase, daily telephone calls, SMS and unlimited-use applications.

To encourage downloading and use of the Meu Vivo app, we launched a campaign with the concept “*Em que tempo você vive?*” [In what era are you living?], emphasizing that whoever does not use Meu Vivo is living in the past. The campaign emphasized how easy and practical it is to use the application for a range of functionalities such as reloading, obtaining second copies of bills and consulting and exchanging *Vivo Valoriza* points.

Throughout the year we continued to advertise *Vivo Ads*. We created a strategy focused on differentiated formats intended for the advertising market, emphasizing the platform’s ground-breaking nature and massive reach, with more than 100 million people in the base.

We also pursued advertising efforts focused on the B2B audience. We continued with the positioning “*Abr sua empresa para o Novo*” (Open your company to what’s New), highlighting this year the products Vivo Fibra, Mobile and Cloud, with a strong Digital and OOH presence in airports. In the case of pay-TV, we made a huge effort by sponsoring the Shark Tank program that focuses on new entrepreneurs, for which we created exclusive and customized content.

The highlight of 2018 was the initiatives involving the FIFA World Cup and sponsorship of the Brazilian National Team. To strengthen our sponsorship, the “*#JogueJunto*” concept was created, and the Vivo logo was transformed into the flag of Brazil, followed by the text “Vivo. Oficial

Sponsor of the Brazilians' National Team", putting supporters, players and the brand on the same level. Vivo was the No. 1 most recalled brand⁷ among the World Cup sponsors, and the 3rd most mentioned brand on Twitter during the matches.

Relationship events and initiatives

Last year, Vivo became an important patron of the performing arts, being one of the brands most recalled by the general public when the subject is theater. In all, 31 shows were sponsored, with 860 sessions throughout Brazil.

These initiatives provided a range of cultural experiences to Vivo customers who were able to redeem free tickets through the *Vivo Valoriza* relationship program, as well as vouchers giving exclusive discounts of up to 70% in the sessions.

Among the shows sponsored, worthy of note were the musicals "The Sound of Music" and "Annie", two major box office successes with over 90,000 viewers each.

The number of plays at Teatro Vivo tripled from 5 to 15 productions running in 2018. In June and July, the first Vivo Theater Festival was held, with a schedule of plays acclaimed by the critics and the public. As a result, we hosted over 7,000 people, with spontaneous media of R\$2 million.

In Rio de Janeiro, the Vivo Rio show venue, where we have held sponsorship and naming rights since 2006, put on 126 shows for 249,000 people, with 29,000 *Vivo Valoriza* customers using the exclusive discount under the relationship program.

We maintained Vivo's commitment to increasingly foster the connection between the public and art in Brazil by sponsoring the MASP and MAM museums (SP), *Instituto Inhotim* and *Palácio das Artes* (MG) and the MAR (RJ). With a lounge that recreated a huge art gallery and a central item inspired by all the connections we maintain on a daily basis, we participated yet again in the *SP Arte*, which was held in April, and *SP Arte/Foto* in August. The two events attracted over 50,000 visitors in 2018.

Continuing the strategy of consolidating Vivo as the leading operator for the gamer public, we continued to sponsor the Vivo Keyd e-Sports club, one of the most important and traditional clubs on the South American electronic sports scenario, which assures us greater coverage in various communities and proximity with a demanding audience avid for technology.

In addition, we were present in important cities, sponsoring events with regional coverage, such as *GameCon* in Brasília, *AnimeXtreme* in Porto Alegre and *Digicom*, the Northeastern Branch of League of Legends, at championships with online qualifying rounds and a live final in the city of Natal.

We also engaged in actions to sponsor the Brazilian National Soccer Team, in partnership with the *Vivo Valoriza* Loyalty Program: several customers were able to watch the Brazilian National Team training at the Granja Comary training ground (Rio de Janeiro) on the eve of the FIFA World Cup in Russia. In addition to the result obtained with the *#JogueJunto* campaign, sponsorship of the Brazilian National Team provided extensive visibility in pitch-side advertising hoardings, backdrops and the training gear of the players and technical commission.

In tennis, we sponsored the Brazil Open for the third consecutive year (Brazil's second-largest tournament) and *Instituto Tênis* (a Center of Excellence for training young players), ensuring brand visibility and proximity to customers passionate about the sport.

In the case of corporate clients, we staged events to generate leads, accelerate opportunities, improving satisfaction and loyalty and strengthening the positioning of the brand during 2018. In all, over 6,500 companies were involved, namely:

7 Source: Kantar Millward Brown.

- 124 actions in Brazil's largest soccer stadiums and show venues (Citibank Hall, Vivo Rio and Teatro Vivo);
- 11 personalized experiences that brought us together with 360 companies in the largest and most strategic business centers (São Paulo, Rio de Janeiro, Belo Horizonte, Fortaleza, Recife and Curitiba);
- 27 content meetings, strengthening the digital positioning, in the company of 1,420 influencers within the leading companies in the market in 12 states across the entire country, which provably generated demand during the year;
- 28 sponsorships of the most relevant market events, such as the IT Forum, Gartner, Mind the Sec, and Ciab among others, where the main focus was on rolling out the portfolio of digital services (Security, Big Data, Cloud and IOT), with a direct impact on over 62,000 people and significant business results: 290 exclusive meetings with CIOs, 291 leads generated and 60 opportunities for engagement with companies from a variety of segments.

B2B customers, essentially vertically integrated companies in commerce, services and industry, representing the greatest consumption of telecommunications services, were once again the most affected by the slowdown in GDP growth. Nevertheless, we focused our strategy on changing the offer of voice services with a focus on a better cost-benefit solution, in addition to growing IT revenues.

In mobile B2B business, we continued to pursue our strategy of operating in digital services, increasing the added value of mobile voice and data products through the Smart Companies portfolio, wagering on unlimited voice services, shared data packages, and international daily allowances, in addition to specific allowances of mobility apps.

We rolled out the data management service for the entire B2B portfolio, enabling internet usage management across all company ranges, as well as the optimization of contracted allowances with no surprises on the bills. We also launched Smart Watch, which allows our customers to use their line on their mobile telephone or watch without having to contract a new plan for the second device.

In the case of corporate fixed segment, our focus was on sales of SIP Trunking with nationwide coverage, consolidating our advanced voice portfolio. Still on the question of voice services was the development of the advanced voice UC product, which will permit us to offer cloud-based corporate voice services, enabling unified communications, solutions for contact centers and applications for work team integration. In Broadband, we saw growth in migrations between technologies, especially to fiber. In the case of fixed, we continued to see growth in the middle market company segment, boosted by the coverage of the GVT network, in addition to consolidating our position among major customers.

Some of the highlights of 2018:

- we increased our penetration in mobile data packages by 5.6 p.p., in addition to raising our net income by 12%;
- growth of 17% in fiber revenues, due to the huge volume of new increases in migrations from other technologies;
- in M2M, we consolidated our leadership and achieved a 41.5% market share in December 2018;
- in IT, we grew by 8.6% in net income, the highlight being the supply of equipment, growth of 16% in security revenue and 12% in revenue from *Vivo Soluciona TI*. We are also advancing in Open Cloud services by increasing the volume of services offered, which enabled us to receive two important certifications, CSA Star, which vouches for our infrastructure and operations, and ISO 27001, which is one of the most recognized in terms of information security and which now includes Open Cloud, in addition to our IT & Data Center

services.

3. Business Performance

Telefônica Brasil S.A. and its wholly-owned subsidiaries operate mainly as nationwide providers of fixed and mobile telephone services through a Concession Agreement for Switched Fixed Telephone Services (STFC) and authorizations granted by ANATEL to provide other telecommunications services such as data communication, broadband internet, and pay-TV as well as value-added services not classified as telecommunications.

3.1. Infrastructure and Network

Since 2013, the Company has been consolidating a robust network capable of fulfilling customers' expectations. We have been able to make progress on migration from Time Division Multiplex (TDM) exchanges to Next Generation Networks (NGN), which has reached 63.4% of migrated fixed traffic, while modernizing exchanges and adapting data-center infrastructure. Most of this effort has gone into replacing optical cabinets (ARO) with Multi-Service Access Nodes (MSAN), that enable us to offer broadband to large numbers of customers who have not yet had access to this service

Telefônica Brasil continued to expand its mobile network capacity and coverage in order to absorb growing voice and data traffic, getting an even bigger edge over the competition by significantly expanding 4G technology coverage, and is the absolute leader in 3G technology.

At the end of 2018, the Company's mobile network provided LTE Advanced Pro, LTE, WCDMA, GSM/EDGE and CDMA digital technologies to 4,592 municipalities. This represents 82.4% of Brazil's total municipalities, or 96.0% of the population. The 2G/GSM-EDGE network ended 2018 with 645 municipalities covered in the state of São Paulo, making a total of 3,759 municipalities in Brazil. In the same period, the 3G/WCDMA network was running in 645 municipalities in the state of São Paulo, making a total of 4,417 municipalities served by this technology in Brazil.

The 4G (LTE) technology, launched in 2013, was an important step forward for the mobile network, since its transmission rates surpass those of the 3G Network. We are continuing to expand the coverage of this technology, ending the year with 3,100 municipalities enjoying the 4G network in Brazil.

The nationwide expansion of the LTE Advanced Pro (or 4G+) network was an important milestone for the Company. This technology allows customers with compatible terminals to achieve even higher transmission rates than with traditional 4G. In 2018, we finally managed to roll out this technology in 1,000 municipalities.

The implementation of the fiber network (GPON technology) achieved in 2018 total coverage of 19.8 million homes passed, of which 8.7 million in the state of São Paulo and 11.1 million in the other Brazilian states, with speeds ranging up to 300Mbps.

Our fiber product portfolio includes a high definition IPTV service (HDTV). In addition to IPTV, the company's portfolio of advanced products for corporate customers includes the GPON fiber service.

3.2. Sales

Telefônica Brasil's commercial structure ended 2018 with approximately 1,600 points of sale, including its own and those managed by authorized resellers, and approximately 12,000 points of sale in retail outlets in addition to remote channels such as Telephone and Online Sales. The capillarity strategy focusing on efficiency and operational excellence, combined with the acceleration in the channel digitalization process, has enabled us to intelligently allocate resources

while maintaining our leadership in the Brazilian telecommunications market, dominating the high-value segment.

The sales channels transformation process, which began in 2017, has enabled us to consolidate partnerships and to operate in a more strategic manner. The sales team has boosted sales of higher added value services, combining the best value proposition in the market with an increasingly balanced sales force in every region of Brazil. This has all contributed to higher profitability, enabling us to further accelerate the digital transformation of the business.

In the case of Stores, we continued the process of transforming our points of sale into points of experience by making continuous significant advances in improvements to infrastructure, systems, customer service and capillarity that ensure an even more efficient and profitable sales operation. Furthermore, we accelerated our penetration in sales terminals, renegotiated lease agreements, strengthened our partnerships with authorized resellers and improved our customer relationships by offering friendlier spaces for holding sales drives, talks, events and workshops. Lastly, we opened five iconic stores and two stores in store with a strategic partner in the south of Brazil.

The Distribution channel, which includes drugstores, newsstands and bakeries, among others, accounts for 85% of prepaid captures and 75% of Reloads. During 2018, the channel focused on initiatives dedicated to sales efficiency through consolidation of our partners and micromanagement of their operations that currently use capillarity and supply management tools, providing guidance for the sales force in the end-to-end chain. These initiatives, combined with the expansion in sales of Control plans and the evolution of the incentive program, provide our customers with greater convenience, and they now have an even greater availability and diversity of the company's products in this segment.

In the Retail channel, we maintained strong partnerships with the chain stores through the "*Turbine suas Vendas*" [Boost Your Sales] program, with an increasingly intuitive interface and attractive prizes, a program that was awarded the silver trophy in the "*Êxito Continuado*" [Continued Success] category at the FIP. In addition, we once again engaged sales promoters, this time with a supplementary and intelligent approach, focusing on points of sales with low Vivo penetration but high potential for capturing the market.

In the Door-to-Door channel, whose profile is that of itinerant salespeople, we continued with the process of transformation through structured growth of the operation, now focused on the high-value segment. This operation, which was already engaged in prospecting for customers in central and suburban regions which physical channels cannot reach, can now count on an active channel for capturing high-value convergent sales to residential and condo customers.

In Telesales, we achieved 10 million products sold and around 14 million calls. The channel brought significant savings by optimizing the inbound operation, improving centralized partner agreements and internalizing the mobile chat. Where digitalization is concerned, currently around 65% of new sales choose the digital bill as their method of payment. We also innovated in how we approach potential customers, actively working on likely audiences and developing online channels such as the chat room which, since it was internalized, has doubled its productivity. The implementation of voice biometrics and speech analytics technology has provided feedback from the sales process, generating better quality indices by reducing unwanted contacts and excessive calls. Lastly, we made progress in setting up new sales platforms covering the customers entire life cycle, in addition to evolving in the use of artificial intelligence by introducing a tool that captures customer data and standards of behavior and searches among our operators for the one with the best profile for serving them, which generated a significant volume of incremental sales.

In B2B mobile retention, we reached the historic level of 81%, in addition to churn of under 1%. In B2C mobile, thanks to a structured work plan with partners and a new sales policy, we achieved a retention rate of 73.5%. We also implemented a platform that uses the artificial intelligence of speech analytics to increase the first call resolution rate, in addition to a B2B project that is transforming our operations, using a tool that permits greater control of the discounts offered and a significant reduction in average service time.

In the digital sales and service channels, e-commerce results grew by 220% in the mobile segment and by 33% in fixed. The continuous improvements in the usability of e-commerce, which contribute to the customer's digital experience and, consequently, the digital presence of the Vivo brand, directly affected these results. Worthy of note among these improvements is the Pick-up in Store project where customers can purchase smartphones via e-commerce and pick them up at physical stores. The project now accounts for over 30% of e-commerce sales in the places where it was launched (nine capital cities and 15 stores up to December).

Meu Vivo, the company's main self-service facilities channel that strengthens its digital service strategy, also contributed to the positive performance of the digital channels: the number of unique users of the application rose by 30% for the year, while digital interactions with customers stood at 70% of total contacts with Vivo against 15% in 2017.

In the search to promote innovative digital services for customers, Vivo launched the Aura cognitive relationship platform, based on the cognitive motor and proprietary systems of the Telefônica Group, replacing the virtual assistant Vivi. Aura is now available to customers in over 20 digital channels, with more than 1 million inquiries a month.

Once again this year, the company successfully captured the potential of the internet business while strengthening its digital maturity in the Black Friday/Black November promotional period in Brazil. Sales grew by 6% in the period, compared with the same period of the previous year.

In addition, with a view to pushing ahead with all transformation initiatives, we launched Vivo Digital Labs to accelerate deliveries of digitalization of the e-care and e-commerce experiences. Consisting of multidisciplinary teams, the SQUADS operate by applying agile methodologies and innovative approaches, focused on assertively delivering improvements in the customer experience in digital channels.

3.3. Information systems

2018 was marked by the continuity of structuring projects and the global digital transformation strategy. This enabled us to strengthen our commitment to investment in IT as a long-term competitive differential.

Thus, we made significant progress in each pillar of our strategic plan, emphasizing those involving improvements in efficiency:

Resources – we fulfilled important deliveries last year. As a result, our ITR[®] stood at 4.0% of revenue.

Transformation of the Business – we continued to move ahead with implementing the FullStack B2C project that aims to substitute several legacy systems with a single system consisting of the most modern the market has to offer. At the close of the year, we reached the milestone of 1 million customers on this new platform, whereby our customers can now enjoy unique functionalities such as acquiring multiple lines in a single operation. Furthermore, we initiated important transformation projects like the FullStack B2B, whose aim is to simplify operations and ensure added value and uniformity across all channels, in addition to producing more competitive offers; and the New OCS (Online Charging System), upgrading the current platform, making it more robust and compatible with new technologies.

Value Deliveries -we initiated the TI2X Project to accelerate IT deliveries, enhancing the area's indicators and reducing time-to-market for new launches. We accelerated the E2E (End-to-End) digitalization index on several fronts, which means fewer manual processes, greater reliability and a better digital experience for the customer, such as the Call Center and Electronic Invoices. We pushed ahead with the development of the Fourth Platform where, by using tools like Big Data, we will be able to detect the profile of our users and consequently improve our offerings. Among

8 Total IT cost index developed by consulting company Gartner.

the digital services initiatives, worthy of note is Aura, our assistant powered by a proprietary algorithm of Artificial Intelligence, clearly differentiating us from our competitors.

Operational excellence – we continued to simplify our systems, which resulted in a reduction of around 30% of the systems over the last 3 years, eliminating complexity and obsolescence. From an infrastructure perspective, we increased the server virtualization rate, resulting in a better return on invested capital.

All these initiatives result in operational excellence, proof of which is the systems availability rate of more than 99.9% in 2018.

3.4. Customer Service

In 2018, digitalization and operational improvements led to a drop of over 20% in calls to the call center in relation to 2017. Moreover, there was an improvement in the customer experience as indicated by the reduction in repeat calls and the evaluation by outliers, in addition to increasing the autonomy of our representatives in the search for first call resolution. This is partly due to the efforts to expand the digital channels and develop more options for self-service facilities.

Among the main digitalization projects is the humanized IVR, which now supports 90% of our traffic and offers more than 80 services through a friendly and more humanized experience by using personalized menus and helping to improve the retention of IVR.

Focusing on new resources and driving forward their adoption, the Meu Vivo app is helping to migrate calls to the digital world, already with 12 million single users. The app is connected to Aura, the Vivo Artificial Intelligence, which was launched in February and registered 15 million interactions in the first 10 months. Vivo is among the first operators in Brazil to provide a cognitive intelligence-based relationship tool.

Notwithstanding the efforts to take customers to our digital channels, some of them still want to talk – that is why we have developed a Cognitive Call Center that is responding to thousands of calls with high rates of approval and precision. This is a continuous improvement process, since it will continue learning new issues at our brand-new Bots Training Center, where the best human representatives analyze its interactions and help it to improve them.

To bring together all the digital projects mentioned and guarantee the best experience for the customer, a corporate culture program was created, committed to providing a unique experience at all points of contact. It will guide our decisions and priorities to ensure an experience that is aligned with the four main principles: reliable, easy, pleasant and efficient.

4. Corporate Governance

The fundamental principles of corporate governance at Telefônica Brasil S.A. are set forth in its Bylaws and in the internal rules and regulations that supplement the concepts contained in the law and standards governing the securities market. The purpose of these principles, which guide the activities of the Company's management, can be summarized as follows:

- Maximizing the Company's value;
- Transparency in the Company's accounts and in the disclosure of material information of interest to the market;
- Transparency in relations with shareholders, employees, investors, customers and public entities;
- Equal treatment of shareholders;
- Participation by the Board of Directors in overseeing and managing the Company and in accountability to the shareholders;

- Participation by the Board of Directors regarding Corporate Responsibility, ensuring the Company's continuity.

Inspired by these concepts and to promote good corporate governance, the Company has instituted measures that render its actions clear and objective, while avoiding conflicts of interest. In 2018, the Company implemented its Policy on Transactions with Related Parties, whose purpose is to establish procedures that contribute to ensure that transactions with Related Parties entered into by the Company and its Direct and Indirect Subsidiaries are based on the principle of transparency, are undertaken in the Company's best interests and are conducted under normal market conditions.

4.1. Board of Directors

Under its Bylaws, the Company's Board of Directors consists of at least five, and at the most, seventeen members, with a three-year term of office and reelection permitted. The Company's Board of Directors currently consists of twelve members, one of whom is elected by the shareholders of preferred shares in a separate vote and without the participation of the parent company, while the others are elected by a general vote of the common shareholders. In 2018, the Board of Directors met 18 times in complying with its functions.

This joint body is advised by the following committees:

- Audit and Control Committee
- Appointments, Remuneration and Corporate Governance Committee
- Quality of Service and Commercial Attention Committee
- Strategy Committee

According to the regulations of the Committees, they consist of three to five members elected by the Board of Directors from among their peers, for a unified term of office of three years, with reelection permitted.

Currently, the Audit and Control Committees, the Appointments, Remuneration and Corporate Governance Committee and the Quality of Service and Commercial Attention Committee consist of three members. The Strategy Committee consists of four members.

4.2. Fiscal Council

As provided for in the Company's Bylaws, the Fiscal Council is permanent in nature. The council members are elected by the Annual Shareholders' Meeting for a term of office of one year, with reelection possible. In accordance with Brazilian corporate law, preferred shareholders are entitled to elect a full member and an alternate member of the Fiscal Council, in a separate vote, without the participation of the preferred shares of the controlling shareholder.

The Bylaws establish that the Fiscal Council will consist of at least three and a maximum of five full members and an equal number of alternates. The Company's Fiscal Council currently consists of three full

members and three alternates. In 2018, the Fiscal Council met 09 times in complying with its functions.

4.3. Executive Board

In accordance with the Bylaws, the Executive Board consists of at least three and, at the most, fifteen members, shareholders or not, resident in Brazil, who are elected by the Board of Directors for a term of office of three years, with reelection permitted. It currently consists of three members with the following positions: Chief Executive Officer; Chief Financial and Investor Relations Officer; and General-Secretary and Legal Counsel.

4.4. Investor Relations

In order for its shares to achieve fair valuation, the Company embraces practices intended to properly clarify its strategy, business evolution, besides its policies and any events arising to shareholders, investors and analysts.

Material information is made available on the Company's portal on the internet (www.telefonica.com.br/ri), with versions in Portuguese and English. All notices, material facts, financial statements and other corporate documents are filed with the regulatory bodies – CVM (Brazilian Securities Commission), in Brazil, and the SEC (the Securities Exchange Commission), in the United States. In addition, the Company has an Investor Relations team that clears up doubts by telephone or in individual meetings, when so requested.

4.5. Independent Auditors

In compliance with CVM Instruction No. 381 of January 14, 2003 and Circular Letter CVM/SNC/SEP No. 01/2007 of February 14, 2007, the Company and its subsidiaries inform that the Company's policy regarding its independent auditors and their services not related to the independent audit is based on principles that preserve the independence of the auditors. These principles are based on the fact that the auditors should never audit their own work nor carry out management activities or advocate in favor of their client or render any other services that are prohibited by current regulations, thus maintaining the independence of the independent auditors' work.

In 2018, no services other than the external audit were contracted with the independent auditors, PricewaterhouseCoopers Independent Auditors.

5. Human Resources

In November 2018, the Group announced the new global strategic program, #RECONNECTA, which is directed at growth and has a formula for achieving it: "G = M*R4" where:

G, which stands for Growth and the business accelerators, which are represented by the R's in the formula and mean, respectively: R4 - Relevance in order to re-imagine our relationship with customers and surprise them with our technology; Revenues in order to reinvent business models and take advantage of opportunities: more customers and greater customer loyalty; Returns in order to re-learn how to work and increase efficiency and benefits and be more relevant to our shareholders; and Responsibility in order to rewrite the rules of the game and practice our values, acting in a responsible and sustainable way. Last but not least M, which denotes Motivation, which is represented by our motivated teams of employees, who play a key

role in our business strategy. We believe that it is through our employees that we will achieve the desired growth.

We are continuing with our Digital Transformation process that is underpinned by technology in order to go beyond excellent connectivity and offer complete services to all of our customers. "DNA Vivo" was launched,

which consists of 4 principles: Reliable, Easy, Charming and Efficient, a program that attempts to permeate all of the company's areas and people, transforming the way we assist and relate to our customers.

On a global level, we implemented Workplace by Facebook, a corporate social network in which all employees can communicate, learn, interact and take advantage of all the diversity of our teams. A number of programs such as Meetings with the CEO and COO, and Customer in Focus were carried out with the purpose of giving the employees a voice and a more active role, enabling executives go through the customers' complete experience in order to understand their real needs.

The result of this work also showed up in our Organizational Climate and Commitment Survey, with participation of 81% of the eligible audience and a Favorability Rate of 85%. Based on the results of the survey, the VP Persons team and the managers are able to map the points for climate improvement and to draw up action plans, supported by an online tool that provides a number of quantitative analyzes of the results.

The Vivo Diversity Program was launched in this emblematic year, for the purpose of appreciating diversity and playing our role in society, cooperating to make it fairer and more connected. We are committed to promoting a more inclusive culture and a more diverse environment, with the aim of valuing the diversity of points of view, origins, identities and orientation, so that everyone feels at ease to be the way they are, with their differences being respected.

5.1. Interaction

In 2018, we strengthened the connection with our team with actions that reinforce the digital transformation, the appreciation of the teams and the emotional bond between employees and the company, contributing to a positive organizational climate. Highlight goes to the following actions:

- **Celebrations:** we continued with the main festivities such as Mother's Day and Father's Day, with the aim of reinforcing the company's ties with its employees and their family members. We also hold end-of-year celebrations, with the teams meeting up in all the cities in order to celebrate the year's deliveries.
- **Recognition:** We disseminated "*Gente de Valor*" [People of Value], a Global program that allows recognition at different hierarchical levels. In Brazil, more than 31,800 recognitions were made. In connection with the recognition of team projects, Telefónica Brasil held the 2nd edition of the Viva Tudo Award, with the best projects linked to corporate strategies. 186 projects were enrolled, involving more than 1,400 employees.

5.2. Compensation

In order to attract and retain the best professionals and recognize their individual performance the Company adopts a salary structure and compensation policies which are in line with the best market practices. Variable compensation programs and a wide range of benefits supplement the total compensation package. In 2018, 3,682 professionals were promoted and 2,118 were included in the salary increase process, which adds up to a total of 5,800 professionals who received an increase in compensation, in addition to the legal adjustments applied.

5.3. Recruitment and Selection and Development Programs

At Telefônica Brasil, we attract and retain the best talents in the market by means of selective selection processes and thorough development processes, with the support of online Recruitment and Selection platforms and evaluation tools that are appropriate to each level of complexity - from operational to strategic. In addition, we have an important Internal Recruitment process, which gives visibility and career opportunities to all employees. In all of the selection processes, the Company adopts actions that endorse reducing inequalities and which are consistent with the best practices for diversity and inclusion, reinforcing our belief that everybody is entitled to equal treatment and access to opportunities.

In 2018, we invested roughly R\$59 million in education, with more than 300 thousand participations by full-time employees and 330 thousand participations by partners in our training actions, which added up to a total of 1,400 thousand hours of training for our own employees and 440 thousand hours of training for partners, taking into account both face-to-face training as well as online training. We reinforced the role of digital education via the SuccessFactors portal, with 40% of the training courses for staff members being carried out by means of digital education.

Our corporate educational actions, such as the Learning Hub platform (online course platform offered by educational partners covering topics related to innovation and technology, career and self-development) are aimed at boosting the digital mindset. We also encourage important drivers by means of compulsory courses for all employees on compliance, privacy and data security, principles of operation and responsible business.

We continued to promote technical certifications that are important for the business and to offer subsidies for professional specialization and foreign language courses. The Educational Development Program had approximately 850 employees enrolled in 2018, with an investment of roughly R\$1.3 million to subsidize up to 50% of undergraduate and graduate degree programs and English and Spanish language courses. We also have an agreement with around 40 educational institutions, including universities and language schools, which grant discounts of between 10% and 30% for our employees who are looking for professional development.

For the fourth year in a row, we held the Self-Development Week, which in 2018 got a makeover and changed its name to #VivoAprendendo. The program offered employees courses on current topics such as: digital mindset, agile culture, lifelong learning, diversity and unconscious biases, among others.

In recognition of the importance of attracting new talent for the sustainability and growth of the business, in 2018 we invested in programs aimed at this audience:

- Young Talents: More than 22,000 people registered for the 32 positions in the company's Trainee program. Increasingly consolidated on the market, our trainee and internship program has been turning into an important source of talent for the company.

We continued to work with the development of leadership, using face-to-face and digital programs aimed at the different levels of our pipeline of Leaders, in an attempt to leverage the results and strengthen the company's culture:

- Corporate Mentoring Program: In 2018 we expanded the program, which included the participation of 150 mentors and 150 mentees, sharing knowledge, exchanging experiences and expanding networking, resulting in a true two-way growth process.
- Leadership Academy: promotes culture and organizational strategy and is aimed at training and developing leaders and potential managers by means of face-to-face and online training actions. In 2018, 120 face-to-face classes were held on 21 different topics at 9 locations throughout Brazil, with a total of 2,088 participations. In October, we launched the Online Leaders Academy Platform, which is open to 100% of the coordinators, section managers and division managers, with a portfolio of 150 courses covering a wide range of content. In 2018, 779 courses were completed.
- Telefónica University (Barcelona): we reinforce our link to the Telefónica Group's global strategy and prepare executives for the challenges of the business through international development programs. In 2018, we sent 277 leaders to the Telefónica University in Barcelona, including Vice-Presidents, Executive Officers, Managers and Coordinators, to take part in 7 different courses.
- Coaching program: an action aimed at the development of executives. In 2018, based on the results of performance assessment, we sent 91 executives for Coaching sessions with renowned consulting firms in the market.

The Performance Assessment is one of the company's main tools for supporting the management of the teams and guiding the employees' development plans. It is aimed at all the company's professionals, including managers. In 2018, for the first time, the Performance Assessment was extended to the customer service, sales and technical teams, which up until this point were subject to separate assessments. The 2018 cycle got underway in the second half of the year, with the participation of 33,196 employees and will be completed in February 2019, with the final assessment.

With a focus on the strategy and sustainability of business, we undertook the Management Review, which is aimed at identifying employees with the potential to assume a more complex position and mapping out those who will take over executive positions in the future. In 2018, 95 positions were analyzed, including among others Vice-Presidents and Executive Officers. This process included an analysis of performance and potential – with the support of the Learning Agility methodology - and readiness level.

5.4. Benefits

In 2018, the Company invested more than R\$843 million in benefits for its professionals, with highlight going to the following items:

- R\$318.2 million invested in health and quality of life;
- R\$58.5 million invested in private pension plans for the professionals, in which the Company also matches an established percentage.

The Company has an area focused on Health and Quality of Life, which operates throughout the country with twenty outpatient clinics in the country's main capitals, providing assistance to the employees in their workplace. These clinics are well equipped with a medical and nursing team that provides integrated assistance.

Telefónica Brasil has a Quality of Life Program based on three pillars (Caring, Welcoming and Our Club), which is in alignment with the global Feel-Good program. In 2018, it carried out actions such as medical care with general practitioners, gynecologists and obstetricians in the in-company outpatient clinics, the Feel Good Nutrition Program with nutritional assistance, the Feel Good 'Cuca Fresca' Program with psychological assistance, the Flu Vaccination Campaign, and the Physiotherapy Program with care focused on functional health and treatment, among others.

Occupational Health and Safety

The Company maintains an area dedicated to Occupational Health and Safety which is focused on safety, prevention of occupational accidents and the performance of occupational health tests. It operates throughout Brazil with the presence of professionals (Doctors, Engineers and Nursing and Safety Technicians) who are properly qualified in Occupational Medicine and Safety.

Telefónica Brasil invests in the knowledge of its employees by means of specific training courses in the area of Occupational Safety with the aim of creating a preventive vision, so that each operational employee understands and assumes responsibility for his/her own functions in the prevention of accidents, in an attempt to continuously improve working conditions.

In the quest for development of a safe behavior on the part of employees engaged in operational activities, in 2018 roughly 32 thousand hours were devoted to the DSS - Weekly Safety Dialogue, with topics focused on the field operating team, including: Installers, Repairers, Assistants, Telecom Technicians, Cabling Professionals, and OSP Officials with direct involvement of the field management.

In 2018, the Occupational Safety was strongly engaged in SST for the Management of Allies, with 358 safety inspections in relation to field activities. The number of companies listed in the occupational accident indicators report showed a 20% increase and our actions included strengthening sound safety practices among our service providers.

Under the topic **Safety and Quality of Life Connected with You**, in 2018 the company held the SIPAT (Internal Occupational Accident Prevention Week) in compliance with Regulatory Standard No. 5. It integrated all the regional offices in Brazil, adding up to a total of 23,686 employees involved in health, safety and well-being actions.

We established all the necessary processes to prevent occupational accidents, injuries and diseases by means of strict compliance with regulatory matters, training and preventive management of occupational risks. We encourage all employees to take care of health and safety, including the people around them.

5.5. Employee Profile

In December 2018 the Company had 32,638 employees (33,622 employees in December 2017):

Breakdown by Macro Function

6. Sustainability

Applying sustainability in our strategy allows us to identify the opportunities offered by new technologies for creating value for society and for effectively managing the impacts that are inherent to our activities, making our business ever more responsible.

The conduction of our business establishes targets to be achieved by 2021, which implies acting in an upright and transparent way and making a commitment to sustainable development, in order to generate a positive social impact and create shared value, with a vision of sustainability that puts people at the very center of what we do and reduces the negative impacts on our operation.

For this reason, the Telefónica Group developed its Global Responsible Business Plan, which is based on seven pillars:

- Promise to the Customer and Digital Trust
- Sustainability Management in the Supply Chain
- Diversity and Talent Management
- Environment
- Sustainable innovation
- Contribution to Progress
- Ethics

In line with these commitments, the most relevant and priority topics in our business are addressed within Telefônica Brasil through projects and goals that involve all of the Company's areas, within the scope of our Responsible Business Plan.

Topics such as climate change, diversity and digital trust, among others, are becoming increasingly important to society and can change the way we relate to our customers and other stakeholders within our value chain.

This is why this year we launched the Telefónica Group's Digital Manifesto, which is a pioneering landmark not just for the telecommunications industry, but also for industry 4.0 and for society as a whole. In addition, we were the first Brazilian telecommunications company to launch a Privacy Center for discussion and clarification regarding this matter. According to a survey carried out by Internet Lab, an independent center for direct interdisciplinary research in law and technology, in April 2018, we are the Brazilian operator that most publicly commits itself to the privacy of the data of its internet users, whether on fixed broadband or on mobile internet.

We actively participate in, and are signatories to, other important initiatives that also contribute to sustainable development. These include the following:

Global Compact

A United Nations (UN) initiative to encourage companies to adopt corporate social responsibility and sustainability policies by adopting ten principles related to human rights, labor, the environment and corruption.

GHG Protocol

This encourages the corporate culture to draw up and publish inventories of greenhouse gas emissions (GHG). We have published our inventory on an annual basis since 2010, and for the last five years have been awarded the Gold Seal.

Carbon Disclosure Project (CDP)

This project gathers companies' global environmental performance indicators in order to help investors with their decision-making processes. It supports organizations all over the world in measuring carbon emissions and effectively reducing them, encouraging an economy that is more focused on a more rational use of energy and renewable matrices.

Public Commitment to Diversity

Women's Empowerment Principles: In 2016, we signed the commitment created by UN Women and by the Global Compact, which lays down seven principles that help companies incorporate values and practices aimed at gender equality.

Women's Movement 360: an association of companies committed to promoting gender equality and increasing women's participation in the corporate environment, in the communities and in the value chain.

Forum of Companies and LGBT+ Rights: this is aimed at influencing the business environment and society with regard to this topic.

Corporate Social Inclusion Network: we have signed up to the Pact for Inclusion of the Business Network for Social Inclusion (locally REIS), a movement that operates in the promotion and employability of employees with disabilities.

Business Coalition for Racial and Gender Equality: exchange of experiences and encouragement for the implementation and improvement of public policies and business practices in order to overcome gender and racial discrimination in organizations.

In addition, as a parameter of continuous improvement and incorporation of sustainability in strategic processes, we use the model suggested by the Corporate Sustainability Index (ISE), with the indicators being monitored by the Company.

In 2018, Telefónica Brasil was included in the main domestic and international sustainability rankings. For the seventh year in a row, the company was included in B3's ISE (Corporate

Sustainability Index) portfolio, which brings together the shares of 30 companies recognized for their sustainability performance. Once again, we were included in the Sustainability Guide of EXAME magazine, which is one of the country's largest surveys of corporate sustainability and highlights 77 model companies in 19 sectors of the economy. In addition, we retained our position as the only Brazilian telecommunications company included in the Best Emerging Markets Performers Ranking by VIGEO EIRIS, a European Sustainability assessment organization that measures the performance of companies using environmental, social and governance (ESG) indicators.

Once a year, the Company publishes its Annual Sustainability Report, which is prepared in accordance with the standards of the Global Reporting Initiative (GRI). The report is available at the Sustainability area of our website www.telefonica.com.br or on the Investor Relations website www.telefonica.com.br/ri.

6.1. Private social investment

The Telefônica Vivo Foundation, which is responsible for Vivo's social projects, believes in educational innovation as a way of inspiring new paths for Brazil's development based on education. The Foundation develops projects in the areas of education, social entrepreneurship and voluntary work. Present in Brazil since 1999, the Foundation is part of a network that consists of 17 other Telefônica Group foundations located in Europe and Latin America. In 2018, we benefitted roughly 1.7 million people and invested R\$60 million.

To find out more about Telefônica Vivo Foundation, visit: www.fundacaotelefonica.org.br

7. Operational Performance

At the end of 2018, the Company totaled 73,160 thousand mobile accesses, reaffirming its leadership position with a 31.9% market share. The postpaid customer base accounted for 55.2% of the mobile base at the end of 2018, 6.2 p.p. growth against 2017.

In relation to fixed services, the Company ended the year 2018 with 22,029 thousand revenue-generating units, a 3.6% against the previous year, mainly on account of the maturity of fixed voice service and the more selective strategy for the pay-TV service.

Broadband - totaled 7,458 thousand customers at the end of 2018, a growth of 0.3% or 26 thousand net additions in relation to 2017. Fiber accesses (FTTH) registered a total of 1,893 thousand customers, which translates into an annual growth of 46.8%. The number of ultra-broadband customers (FTTx) now accounts for 66.9% of total broadband accesses.

Lines in Service - totaled 13,005 thousand customers in 2018, a 6.0% decrease in relation to 2017, due to the maturity of the residential fixed voice service, as well as the impact of the macroeconomic scenario on the corporate business.

Pay-TV - totaled 1,567 thousand customers in 2018, a 1.3% reduction against 2017, reflecting the Company's selectivity with a focus on higher value customers. IPTV totaled 579 thousand users, which translates into an annual growth of 52.1%.

As a result, the Company ended 2018 with 95,189 thousand customers, a 2.7% drop in relation to the previous year, due to disconnections by fixed voice customers and prepaid mobile customers.

8. Financial Performance

8.1. Net Operating Revenue

In 2018, the Company posted consolidated net operating revenue of R\$43,463 million, up by 0.6% over 2017, when we recorded net revenue of R\$43,207 million. This growth was due to greater revenues from data and mobile digital services, in addition to fixed broadband, but was partially offset by the drop in revenues from fixed-to-mobile calls and by the lower interconnection tariffs, both fixed and mobile, as determined by the regulator.

8.2. Operating Costs and Expenses

Operating costs, excluding depreciation and amortization, totaled R\$25,638 million in 2018, which represents a 12.0% drop against the same period of the previous year (R\$28,721 million), and below the 3.7% inflation for the period. This reduction is mainly explained by the Company's intense digitalization process, which resulted in lower printing and postage costs due to its adoption of e-billing, the reduction of costs with commission on account of the growth in e-commerce of products, services and reloads, lower customer service costs due to greater penetration of the *Meu Vivo* app, as well as lower costs for services provided due to the decrease in fixed and mobile interconnection tariffs as from in February 2018, being partially offset by the higher cost of goods sold, reflecting the strategy adopted during the year of focusing on the sale of terminals and equipment with margin. In addition, the Company registered a non-recurring effect related to a favorable judicial decision in connection with tax contingency.

8.3. Operating Income before Net Financial Expenses and Equity Pick-Up

Operating income before net financial expenses and consolidated equity pick-up increased by 42.6%, up from R\$6,632 million in 2017 to R\$9,456 million in 2018, mainly on account of improved operating performance.

8.4. EBITDA

EBITDA totaled R\$17,825 million in 2018, a 23.0% increase against the amount of R\$14,486 million in 2017. In turn, EBITDA Margin in 2018 was 41.0%, a 7.5% p.p. increase in relation to the 33.5% margin recorded in the previous year. This result was due to the higher revenues from mobile and ultra-broadband services, as well as the efficiency and digitization measures adopted by the Company and a non-recurring effect in connection with a favorable judicial decision regarding tax contingency. Excluding these effects, the recurring EBITDA margin in 2018 was 35.8%, a 1.9 p.p. increase against the 33.9% recurring EBITDA margin in 2017.

In millions of *Reais* – Consolidated

	2018	2017
Operating income before financial income and expenses and equity pick-up (*)	9,456.2	6,632.2
Depreciation and amortization expenses		
In costs of services provided	6,487.9	5,963.1
In expenses for sales of services	1,352.6	1,433.3
In general and administrative expenses	528.1	457.3
EBITDA	17,824.8	14,485.9
EBITDA Margin		
a) EBITDA	17,824.8	14,485.9
b) Net operating revenue (*)	43,462.7	43,206.8
a) / b)	41.0%	33.5%
Recurring EBITDA margin	35.8%	33.9%

(*) See income statements.

8.5.Indebtedness and Financial Result

In millions of <i>Reais</i> – Consolidated	2018	2017
Loans and Financing	(2,499.8)	(3.494.9)
Debentures	(3,173.9)	(4.520.8)
GVT Contingent Consideration	(465.7)	(446.1)
Total indebtedness	(6,139.4)	(8.461.8)
Derivatives transactions	56.1	143.8
Indebtedness after derivatives	(6,083.3)	(8.318.1)

The Company ended the year 2018 with gross debt of R\$6,083 million (R\$8,318 million in 2017) or 8.5% of shareholders' equity (12.0% in 2017). Funding is 1.6% denominated in foreign currency (US dollar and a basket of currencies - UMBNDES) and 98.4% denominated in domestic currency. The total amount of foreign currency denominated debt is covered by hedge transactions.

8.6.