
Local Conference Call

TIM Participações

4Q18 Results

February 20, 2019

Operator: Good afternoon, ladies and gentlemen, and welcome to TIM Participações' 2018 fourth quarter Results Conference Call. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. There will be a replay for the call on the company's website. After TIM Participações' remarks are completed, there will be a question-and-answer session for participants. At that time, further instructions will be given.

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[Operator Instructions] Now, I'll turn the conference over to the CEO, Mr. Sami Foguel, so he can present the main messages for the fourth quarter of 2018. Please. Mr. Sami, you may proceed.

Sami Foguel - TIM Participações S.A. - CEO

Good afternoon everyone and thanks for attending our conference call. Sorry for having our call right after our competitor. This was the only possible arrangement this time around. I hope you had the chance to grab a bite before connecting.

We had the opportunity to discuss my vision of evolution, building on a strong base to become the BEST operator in Brazil. The one customers love the most, the one with the highest engagement level of employees and the one with the highest returns to its shareholders. As we transform our base with more exposure to postpaid, an entirely new set of capabilities are under refinement. From credit and collections, to billing, to digital and physical distribution, acquiring, logistics

under the surface a revisited set of capabilities are being put in place and that only signals the long term potential we have ahead of us.

I am pleased to be here today celebrating strong results. We closed 2018 in a very solid way. Our focus on execution, enabled us to deliver record high numbers for EBITDA and Margin, and to generate solid cash while continuing to invest in our infrastructure; all this, amid an acceleration of mobile revenues in 4Q with great growth trends in TIM Live.

We delivered our 2018 targets. We were able to overcome the obstacles imposed by much slower economic growth than originally expected, and a much tougher competitive environment. Our 2018 annual plan was based on assumptions that began to turn mid-year.

We hope that for 2019, those two components will pose less of a challenge, but even if there are no improvements, we are confident we can sustain positive results.

Going specifically to the fourth quarter, our EBITDA grew close to 6%, with margin soaring to 42%, the highest margin in the history our company. Our MSR growth accelerated to 3.6% year-on-year and TIM Live maintained its strong revenue growth trend, expanding more than 35%.

A solid 4Q led to strong numbers for the year. EBITDA grew above 10%, and the margin expanded to about 39%. This drove EBITDA minus Capex to 2.6 billion Reais in 2018, reaching more than 15% over sales, while Net Cash Flow reached 1.2 billion Reais. Service revenue growth reached almost 5% with the contribution of Mobile and TIM Live. The dynamics in both businesses reflected double-digit ARPU expansions and resilient growth in high value offers.

Mobile is the largest portion of our revenues and where the challenges became more pronounced since May. In Prepaid, for instance, we had to deal with aggressive offers from competitors hindering a rational approach to the market. So far, we have been able to avoid a price war and we have been focused on managing the natural slowdown in Prepaid while we continue with the upselling process.

Prepaid ARPU stood flat in 2018, supported by an average recharge that grew quarter-over-quarter. Top-ups are becoming more digital, which is an important element for cost reduction. E-recharges penetration increased by 5 percent reaching more than 30% of the total.

At the end of last year, we introduced a new concept in Prepaid to simplify the existing offer, facilitating customer understanding of their consumption, while

increasing their commitment. The new product is called TIM Pré Top. This innovative product links the recharge directly to the service package. The client always knows what one Real of recharge will provide in benefits. We expect this approach to address customer concerns on transparency and interface, therefore improving customer experience.

During the fourth quarter, we kept executing our multi-segment migration strategy (Pre-to-Control, Control-to-Control and Control-to-Pure) adjusting the way we target our base for these up-selling movements to maintain growth with quality and profitability. We also took steps to increase loyalty, using lock-in offers both in Pure Postpaid and in Control. Lock-in offers in these sub-segments as a percentage of the gross additions represented 56% and 18% respectively. We expect this to help, in the long term, churn levels and reduce the impact of competitive threats.

We also had to dodge price competition movements in Postpaid. To counter these, we combined innovative offers and channel restructuring to register a resilient Postpaid ARPU. We expect that the recently announced price increases in Postpaid can set the tone for 2019 depicting an environment with less price competition pressure.

The industry should compete on service, products, innovation, quality, and channels. That is what will deliver long term return on investment for our shareholders. This will also drive positive impact with more and better services, client satisfaction, investments, coverage, employment generation, and growth.

The net effect of navigating well through turbulent skies of the mobile market led us to a total ARPU of 22.4 Reais with strong growth of 11.3% year-on-year; a Postpaid base representing 36% of the total, reaching in December more than 20 million clients and yielding a growth of almost 14% versus December 2017; a 4G adoption was also very strong, growing by 25% year-on-year and reaching more than 60% of the base.

If the mobile operation was marked by its resilient performance. On the fixed business front, we keep having outstanding results in TIM Live. During the fourth quarter, we reached 14 cities with ultra-broadband services, of which in nine we have rolled out FTTH.

The geographical expansion boosted coverage to a total of 4.3 million households and helped us post solid net adds of 75 thousand clients, two-thirds of which are connected by fiber. Following this expansion, our base reached almost 470 thousand customers, a 20% increase year-on-year.

The combination of high speeds and streaming content is pushing the mix of sales towards high value offers. 40% of our clients have signed up for higher than 100 mega connections. This is driving strong ARPU performance, which grew 14% year-on-year in 4Q.

Double digit growth rates for the base and ARPU led TIM Live revenues to grow more than 35% year-on-year. This performance lifted TIM Live to become the largest portion of fixed revenues in 4Q.

TIM Live is proving to be a great opportunity. And an important stream of revenue. Looking forward we will maintain our controlled growth approach, perfecting execution and making sure our path is sustainable.

Building a robust network and IT infrastructure is the foundation for transforming customer experience. On the network side, we are executing very well our strategy to improve coverage and capacity, both in mobile and fixed. Allow me to highlight some of the key initiatives. First, we are maintaining our leadership in 4G coverage with close to 33 hundred cities; second, our spectrum efficiency program continues to excel, helping us to cope with the data traffic growth in a capex efficient manner. We are accelerating the 2.1 Giga refarming, reaching almost 250 cities, while finalizing the re-utilization of the 1.8 Giga, now in more than 2.2 thousand municipalities. Third, the focus on deploying 4G on 700 Megahertz keeps us in a unique position. Close to 65% of the urban population already has this additional layer of frequency that improves indoor coverage in a significant manner. Fourth, we continue pushing the deployment of Voice-over-LTE technology, now with more than 2.5 thousand cities and 12 million users. Lastly, on the fiber front, we reached more than 600 cities in our FTTCity program. The FTTH rollout is showing excellent speed and we closed the year with more than one million households covered with fiber-to-the-home.

As a consequence, in the fourth quarter, we celebrated once again our leadership in the most important rankings of network performance analysis we took first place in the P3 Mobile Benchmark; we maintained our leadership in OpenSignal's 4G availability test and we continued our supremacy in the Netflix ISP ranking, taking first place 53 times in the last 56 months.

It is worth mentioning that our network investments of today are already 5G compatible. Brazil will not increase its productivity gap without 5G. The more we wait, the less competitive the country will turn. We embrace the idea of a 5G spectrum auction sooner rather than later; an auction that privileges the rapid rollout of the network and hence country development and GDP growth. TIM will be working with all stakeholders to support the best decision making-process for

society. This is what put Brazil on par with global development and foster investment, innovation and growth.

On the digital transformation front, 4Q demonstrated very consistent results. E-billing doubled when compared to a year ago, reaching more than 50% penetration; the number of clients using electronic methods of payment grew by 33%; Meu TIM App utilization also expanded heavily, above 70% versus last year, and; non-human interactions grew by almost 40%. Digital channels usage is accelerating the resolution of demands from our clients.

Step-by-step we are improving our capabilities to better serve all segments and early signs confirm we are moving into the right direction – Satisfaction, NPS and Preference are all reflecting positive reactions – but it is clear we have a long road ahead of us. Heavily changing the mix from pre-paid to postpaid requires our continuous focus on core systems and processes.

Recent improvements reinvigorate our motivation and present an enormous opportunity to be captured. I will continue to lead the evolution of the company culture towards a customer centric approach and this will flourish in the upcoming quarters and years.

Going into details of the financial results. As I mentioned earlier, the external environment posed additional challenges to our business. Nevertheless, our consistent execution drove resilient dynamics for Revenue and ARPU.

In the quarter, Top line was up 5.2% with Service Revenues accelerating 3.7% after 3.3% in the 3Q, driven by a small recovery in Mobile. 4Q Mobile ARPU showed a solid expansion of more than 8% to reach almost 24 Reais.

Looking at the full year picture, Top Line grew 5% with Services coming pretty close to that level as well. It is worth highlighting how our Revenue profile has changed over the past 12 months. Postpaid Generated Revenues sustained a year-on-year growth of more than 20%, while Prepaid was down close to 15%. This led TIM to reach a split of 63% to 37% in favor of Postpaid, an increment of more than 8 percentage points versus 2017.

Moving on to cost dynamics. Normalized Opex for the year grew only 2%, below inflation and better than expected in our original plan. We are over-delivering on our efficiency program, having achieved almost 120% of the target for 2018. The Digitalization process is certainly a big contributor to this.

Despite staying at a reasonable level at 2% of gross revenues, Bad Debt provisioning is the main challenge we are facing, and it is directly affected by the change in revenue mix. To put it into perspective, excluding Bad Debt, our

Normalized Opex would have remained flat in 2018. During the 3Q call, I listed some initiatives we would be implementing to improve risk management, and some of them became active in the fourth quarter. These include the collection portal and the call center to treat early delinquency as well as a reinforced collections team. We expect to start seeing the benefits of this action plan in the second half of the year.

It is worth detailing the two non-recurring items that impacted our results in the fourth quarter. We booked the first of our 3 court cases related to the payment of PIS and Cofins federal taxes over ICMS state tax. The tax credit plus monetary adjustment totaled more than 350 million Reais, roughly 160 million positively impacted Opex, while more than 190 million was the positive impact on Net Financial Expenses. As stated in 3Q, we forecast a total of 3.2 billion Reais from these tax cases. In a reassessment of our contingencies, we revised the loss probability forecast for a number of old cases, mainly related to third party labor, which we don't expect to happen again. Total impact was in excess of 280 million Reais, 160 million negative impact on Opex and 130 million on Net Financial Expenses.

The summary of what I have described until now, is a robust operation with resilient revenue growth and continuous cost control that combined produced an outstanding 4Q EBITDA of 1.9 billion Reais with a growth rate of nearly 6%. Full year EBITDA grew more than 10% to 6.6 billion Reais with Margins reaching 42% in 4Q and 39% in 2018.

Our EBITDA figures are really impressive as they represent the highest levels in the Company's history.

The bottom line was also very strong. For the full year, we posted a Normalized Net Income of almost 1.6 billion Reais, 27% higher compared to 2017.

Capex was deployed according to plan, totaling 4 billion in 2018, representing 23% of sales, down from 26% in 2017. EBITDA minus Capex totaled 2.6 Billion Reais, growing more than 40% year-on-year and leading Free Cash Flow to almost 3 billion Reais, 24% higher than 2017.

Following this improvement, our shareholder remuneration increased 3 fold, reaching more than 950 million Reais announced between IOC and dividends. We expect to continue using IOC as an efficient distribution tool.

Before I conclude my speech, I'd like to remind you that Telecom Italia group's industrial plan will be released tomorrow, which will give us the opportunity to provide TIM Brasil's updated guidance. Although I, of course, cannot provide any numbers in advance, I can assure you that we built a solid, realistic, and coherent

plan that will focus in key areas of the business: managing the challenges in Prepaid; evolving our B2C postpaid strategy to maintain a strong performance; reinforcing TIM Live's expansion without losing quality control; B2B will receive additional attention to become a new source of growth; efficiency efforts will remain in place to maintain margin expansion, either by executing further on digital transformation or by more traditional means of controlling costs, and; we will focus on developing our infrastructure. This will continue to be the basis for improving the customer experience. In mobile, with much more focus on growing capacity, while in fixed segment, coverage will remain the core of our attention.

We will now open the floor for questions. Please, operator.

Q&A

Operator

[Operator Instructions] The first question comes from **Susana Salaru, Itaú**.

Susana Salaru (Itaú) - Hi. Good afternoon, guys. Thank you for the questions. Actually I had two questions. The first is about the competitive landscape. We have been hearing that the market is being more rational. Actually, we have been saying... perception of the market, and if you have intention of price increase going forward. That would be our first question.

The second question is related to the 5G auction. What are your expectation towards the timing of the auction and the format of the auction? That's it guys. Thank you.

Sami Foguel (CEO) - So, for the first question, just to recap, the question was about the market competitiveness. Can you repeat please because it's cut during your question?

Susana Salaru (Itaú) - Sure. It's about the competitive landscape for the market. We saw the competitors increasing prices.

Sami Foguel (CEO) - Yeah. I think there are two different aspects on that. On the prepaid, we unfortunately haven't seen any easiness in the competition. Actually, the competition is very strong, and we are positioning ourselves with a different product. We just launched the TIM Pré Top, which has a different value proposition, and... product for our clients, transparent customer-friendly, and not focused on price war. But unfortunately, we don't see this behavior in the competition. On the postpaid, we see a much better environment, as the price hasn't been the focus of competition over the last few months.

Question about 5G. We are favorable of 5G auction in Brazil. This is important for the country. One of the talks of the country is the competitiveness gap. And without 5G, this will only increase. So, it's not a matter of having or not 5G, it's how fast we can have a 5G. So, we hope the auction to be one year from now. And then, after the auction, there'll probably be a one-year spectrum cleaning. But really, the more it goes, the worse for the country for job generation, for competitiveness. So, this is the focus.

And I pass it to Mario, see if he complements any of the comments.

Mario Girasole (Head of Regulatory & Institutional Affairs) - Just to complement, of course, we have discussions in place in terms of having a rational approach strategy. So fast and rational. 5G is strategic. So, we cannot lose the momentum. And also, we cannot lose the rationality to have an auction that give us, of course, a privilege to the investment to be done in order to foster the sector, and the productivity of the country.

Susana Salaru (Itaú) - Perfect. Thank you.

Our next question comes from Fred Mendes, Bradesco.

Fred Mendes (Bradesco) - Good afternoon, everyone. Thanks for the call. I have two questions as well. I mean the first one is – as Sami mentioned, I do understand the competitive landscape remains quite challenging. But we did see, at least here in my numbers, there was an improvement on mobile service revenue. So, I was just wondering if something has changed, and I think on fixed line as well, how's the – if that had an impact, how's the performance of the WTTX? Is this something already relevant in terms of net revenue? And if you think you're already being competitive against other players on the broadband, the other players that offer copper to the broadband? This will be my first question.

And then, my second question in terms of the cost, looking at the bad debt, of course, you are increasing your postpaid base significantly. But when I look at the bad debt, increase of 80%, it does call the attention. You also mentioned that you started a new contact center back in September to reduce this line. So, I mean just – what are your expectations for 2019 related to bad debt? Thank you.

Adrian Calaza (CFO) - Hi, Fred. I'm Adrian Calaza. I'll try to answer your first question. There's a little bit of noise in the line, so your question. Talking about the mix of the revenues and the impact on the growth on quarter. And again, the point that Sami mentioned in the first answer, you see different competitive

environments on prepaid and on the postpaid. On the prepaid, with a lot more aggressiveness in the market, where we managed to cope the reduction on those revenue. If you see the evolution of our prepaid revenue, our reduction was less than on the third quarter, so that was positive effect on the growth. If you see our total growth, client generated revenues was up for 4.5%. So, for us, it was positive in terms of prepaid. We mentioned in the third quarter that we saw a more stable curve in terms of recharges in the prepaid. That was a positive. And then, you have on the postpaid side, we did some price increases already in November. We were first movers on the postpaid. It was a big effort on our side. As you know, we are trying to focus more on our growth in quality these days. So, that was one of the key reasons that revenues this quarter were a little bit above the growth of the third quarter.

On the second question regarding bad debt, clearly, these days, we've been working in the last quarters. We always talk about this as something maybe one of our main concerns in terms of Opex. Clearly, there is an effect on all the migration process that we did in the past. We started this migration process from prepaid to postpaid at the beginning – at the end of 2016, beginning of 2017. So, clearly the effect of the mix of our customer base creates the effects on the year-on-year growth of the bad debt. Nevertheless, it's something extremely important for us. Even if the rate is aligned with the rest of the operators in this market, it's even below rates, as a matter of fact, of some banks, but it's still something where we will be working a lot.

If you see, there were some questions about the growth of our G&A OpEx. That's related also to increase our efforts in terms of contact center to cut this bad debt effect. So, again, it's more related to the new mix of our customer base. It's an area where we want to work a lot over the next – from the next quarters to make... year-on-year comparison.

Sami Foguel (CEO) - Yeah. As to complement Adrian here, Fred, we have implemented recently a list of initiatives to start to – not just start, but to continue work on the bad debt. Our portal – renegotiation portal is ready. As Adrian mentioned, we reinforced our operations. We have a full team now onboard, but also, we are expanding our capabilities on the credit side. And as we know, this is a vintage game, right, so the new vintage are going better or worse according to our appetite for risk and our capabilities on the collection side. So, it's a natural evolution, as I mentioned, in the call.

As we change our mix from more postpaid, there's a new set of capabilities that will and we are developing. That – actually only final, the positive upside ahead of us. So, we expect on the second part of the year to start seeing the benefits of those initiatives.

Fred Mendes (Bradesco) - Perfect. Thank you, Adrian, and thank you, Sami. So, if I can just – I think the beginning of the answer was a little bit harder to understand you. So, if I could just may follow up here. Looking at the WTTX, is this something already – something that's becoming relevant in your net revenue? Does this line have an impact in the mobile service revenue growth or not yet? Thank you.

Adrian Calaza (CFO) - Still, again, Fred, no, WTTX isn't yet relevant in terms of total revenues. The impact is still very low. It's not an easy business. We are reviewing all the process of this business. We think that this can bring us – it's an additional revenue stream for the future. We are working a lot and we think that – you will see an effect in terms of weight in revenues more in by the end of 2019, maybe beginning of 2020. So, no, it's not a factor in this fourth quarter of 2018.

Fred Mendes (Bradesco) - Perfect. Very clear now, Adrian. Thank you.

Our next question comes from Maria Azevedo, UBS.

Maria Tereza Azevedo (UBS) - Hi. Thank you for the question. So, I've seeing this growing focus on convergence and convergence offers. Would you expect to increase your Capex allocation in the coming years to accelerate your fixed-line strategy? I know you're going to focus more, but would there be room for higher fixed CapEx? And still on the convergence, what is your strategy on content? I mean we are seeing some competitors bundling Netflix Global, Amazon Prime content. How do you think the industry will approach that? That will be my first question. Thank you.

Adrian Calaza (CFO) - In terms of CapEx allocation for the Live business or for fiber, we are following what we mentioned in our – the communication on the plan in last March. So, the Live business is still on track. We believe there is, Sami mentioned in the speech, there are a lot of opportunities on this business that it's always a business that we need to grow very carefully. You know perfectly well the story of this business in this company, in the past years, it needs to be very well managed and a very controlled growth. But again, a lot of efforts on our Capex plan are oriented to growth in fiber, not only in FTTH, but also in FTTC and FTTCity and Fiber to The Site. But clearly, it's going to be a key factor for the revenue growth in the following years. But again, we are not changing any point on our Capex allocations that we already communicated at the beginning of 2018. You will see that in the next communication, I will give that. We are right in line with what we said 12 months ago.

The second part of the question was...

Sami Foguel (CEO) - I can take.

Adrian Calaza (CFO) - Yeah.

Sami Foguel (CEO) - So, Maria, talking about content, especially on the broadband – on the FTTH. There are two components of this. First is our strategy. We have a selective approach, okay? So, we select place that have the proper population mix in terms of GDP, and low competition or no competition. So, our strategy is not to enter the most competitive place with the double-play or triple-play. On the contrary, we are being very successful in entering place that's underserved, and start to offer outstanding products in terms of broadband. And we see over the next three years a lot of opportunities to continue growing in that manner.

Second, we already have – despite of this, we already have content available in our offering. So, Fox, Cartoon, NatGeo. We do have embedded on offers already, content.

Maria Tereza Azevedo (UBS) - Okay. Thank you very much. As a follow-up question, if you could please comment on the cost side, I mean, you've been executing extremely well on cost efficiency. Do you have any expectations on improving your bad debt in this provision? Or do you think that this is more a structural macro issue? And what strategy you can do? And if you have to be more selective on your upgrade from mobile to postpaid on the back of higher bad debt levels or if you're comfortable with it, that will be – that would be very helpful. Thank you very much.

Adrian Calaza (CFO) - I am Adrian. We said already a couple of times that we are already focusing more in terms of quality. So, this is maybe the starting point, working a lot in terms of credit and credit analysis, focusing more on the better customers to migrate from prepaid to postpaid. I think that delinquency, it's a structural factor. It's not really high in Brazil compared with other countries. But, clearly, there is a factor. What we are seeing for the future is that you won't have this year-on-year growth. Maybe you will still be in the same nominal levels that you're in this last quarter. But this will not take you to additional growth in terms of bad debt. Well, clearly, the new customers need to have more margin, more marginality due to a better quality.

Maria Tereza Azevedo (UBS) - Perfect. Thank you very much.

Our next question comes from Diego Aragão, Goldman Sachs.

Diego Aragão (Goldman Sachs) - Good afternoon, everybody. Thank you for taking my question. My first question is related to the acceleration on the mobile service revenue growth in the fourth quarter. How do you see this line trending in 2019? I mean, will this mark a turning point on your top line growth or we should see it more as an stabilization of the growth rate? And if you can just provide the outlook, how should we be considering this – your top line growth in the coming year, that would be great. Thank you.

Sami Foguel (CEO) - So, thank you, Diego. This goes back to the macroeconomic and competition environment, right. So there's a lot of expectation that the country will grow and will develop. Some of the early signs for January are not so optimistic in terms of what's actually going on. So we don't see, so far, a real change in terms of GDP growth that could allow us to a different scenario in terms of macroeconomics. Either in terms of more demands or less debt, or improve in the prepaid that would come with growth. Of course, if the growth come, it's only upside to everyone and also in terms of competition, right, as we discussed here, I think the competition healed in the postpaid. We have re-pricing, we have facts in the postpaid over the last quarter and we just announced the re-pricing as well now in Feb. We see the competition much more mild, if you wish, if it could be possible in the postpaid, while in the prepaid, we haven't seen any real fundamental on what's going on over the last quarters.

Diego Aragão (Goldman Sachs) - Okay. Thank you. And maybe the second question related to the postpaid, I mean, we saw some deceleration actually on your net adds in the fourth quarter, especially in November and December, which was right after this increase on price. So, what is causing this pressure on recent month? I mean, could this be a reflection of your – the increase on price?

Renato Ciuchini (Head of Marketing Consumer) - Hi, Diego. This is Renato, Head of Marketing. We have elaborated a little more on our strategy on migrating prepaid to postpaid, and have started focusing on more quality. So, what you have seen on our net adds is also the quality of the net adds are better than what we had in the past. So, there is more focus on a selective approach, migrating prepaid to postpaid. And also, we started the phase two of our migration inside of the segment of control and also postpaid. So, we are doing more control to control migration, control to postpaid, and also postpaid to postpaid. As you have seen, our main postpaid offer a year ago was in the BRL 99 target price. Our main offer now is in the BRL 119. So, piece-by-piece, we are migrating the base not only from prepaid to control, but also the postpaid base overall.

Diego Aragão (Goldman Sachs) - Perfect, Renato. Thank you very much.

Our next question comes from Valder Nogueira, Santander.

Valder Nogueira (Santander) - Hi. Good afternoon. Sami mentioned the still long road ahead regarding the mobile business, and there is yet to be taken from this business. But given the success that you have had on TIM Fiber and I believe low-hanging fruits in the B2B arena, would it make sense for you to speed up a little bit more, your fiber deployment or fiber partnership or being more engaged into this business? This is the first question.

Sami Foguel (CEO) - Okay. Thank you. Thank you, Valder, this is Sami. Thanks for your question. In December 2017, we have two pilots – two pilots on FTTH with a few clients. One year later, we have 11 cities with over 50,000 clients and a big plan ahead of us. So, what we've been saying about in terms of efforts with FTTH is that, number one, we are really accelerating the goal of 35% year-on-year. But also this is a total new business for us and we wanted to perfect execution so that we grow in a controlled manner so that we actually generate positive value to our clients and to our shareholders. So that's number one.

In terms of your second-related question in terms of fiber, we have been and we are always open to analyze potential inorganic moves. So far, what we have faced is that the organic paths are the preferred. We don't have – examine something that would add more value to our shareholders and to our strategy in an inorganic way. But I also want to take the opportunity to present Marcio Estefan. He just joined us a few months ago, the company. He is leading the B2B area and Live. He's coming from a long background into those segments and he will complement any comment about the growth in B2B and what we see ahead.

Marcio Estefan (Head of B2B and Live) - Hi, Valder. As Sami said, we are starting a new way to approach the B2B market. We do have here in TIM a very good infrastructure, a very expanse network with high quality and also focus as Sami mentioned in a customer-centric way. So, there is a very good opportunity for us to increase our share in the B2B marketing with this approach. And also in the TIM Live, as Sami said, we are being very focused – we are studying the best regions to deploy our network and be more efficient in the deployment. So, we do believe that it is a good path for growth and we are going to see that in the years to come.

Valder Nogueira (Santander) - Well, first of all, nice hearing it from you in the new house and does it make sense making partnership with those players that have fiber, that goes closer to these players, to this potential B2B arena? Not necessarily going inorganic, but making joint ventures or helping to finance these guys so you can have a faster access to this fiber.

Marcio Estefan (Head of B2B and Live) - We are studying here – of course the partnership – we do – today, we have partnerships also that we buy leased line for many companies and we are also studying here ways to increase that, as that's a way to go to new areas. Also studying new products that we can put over this leased line from third parties to increase our capacity – our offering capacity. So, we are increasing this – we are looking to the market to seek partners that can help us. So, we do this today, and we intend to grow in this also. But after looking at the quality of service that we are delivering, I think that is the greatest differential that we – a company can give to the B2B market, is being very close to the customer and have a high-speed delivery and having high-quality of service, so we are looking at all possibilities here.

Valder Nogueira (Santander) - Well, congratulations on your new challenge. Thank you.

Our next question comes from Walter Piecyk, BTIG.

Joseph Galone (BTIG) - Yes. Hi. This is Joe Galone for Walter. You mentioned the ongoing refarming of spectrum in 1.8 GHz, 2.1 GHz, the LTE, and then there was also a comment about certainly – I think it was over 79% percent of data traffic is on the 4G network at this point. So, my question is, how far within those bands can you push refarming or the additional bands that you have, and how little spectrum do you need to continue to serve the 2G and 3G subscribers at TIM and also maybe you've mentioned this before, but when do you think you'd get to the point where you, maybe shut down to 2G or 3G?

Leonardo Capdeville (CTIO) - Hi, Walter, this is Leonardo speaking. First, we started to have the refarming in 2.1 GHz this year, so we are still – sorry, last year. We are still, let's say, beginning this opportunity. We are seeing that we have some interesting point in our North and other states like in Minas Gerais, Paraná and Santa Catarina, but we are trying to do the same in São Paulo area. So, what we are discovering is, every time that we move with the refarming for one band, we are seeing that we can capture more and more traffic in the 4G. You know that we are above 90% of the traffic already generated in 4G device and we are carrying on the network 4G around 76% of the amount of data traffic. So, what we are seeing is that we have this opportunity in 2.1 GHz, but in the near future you can see that can be the next wave. So, we are forcing to have the customer all the time in 4G. We are the leader in terms of the coverage. We started to use the hold in Brazil. We have more than 12 million subscribers already using VoLTE. In some cities as in Recife and São Paulo, we are above of

25% of the total calls already in VoLTE. What it means is that this customer will be there in 4G for all the time despite to use data or voice.

When you look ahead, what we have is some opportunity in the P-band, that is a new band in 2.6 GHz that we have in some region. So, we still have some kind of, let's say, refarming and new preference opportunity and you know, what we are seeing is that the technology is developing and with that all the time, we have discovered new way to use the same in more efficient way. So, talking about the switch-off of 2G and 3G, it's not clear to us right now what will it be in Brazil and when it will happen. Of course, it's difficult to work with 2G, 3G, 4G and start to think about the 5G. So what we are seeing is that the 2G and 3G you'll be let's say more peripheral technologies, but that is not so clear when we have the opportunity to make this choice one of this technology. What we are trying to produce in Brazil is some kind of a sharing agreement with the other companies to reduce the inefficient way of these legacy networks. So, we are going to move some kind of a new discussion among the other companies to have some kind of single grid or run sharing in the old technology to avoid.

Our next question comes from Diego Aragão with Goldman Sachs.

Diego Aragão (Goldman Sachs) - Hi. Yes. Thanks for the follow-up question. The industry is clearly benefiting from this ongoing digitalization process in the region which is producing major margin gains. So, the question is, when do you expect margins to stabilize in a scenario where players will start using those efficiencies to reinvest in growth? Thank you.

Adrian Calaza (CFO) - Diego, it's Adrian again. Digitalization, it's a key factor and it has been already this year in order to increase margins for the industry and you can see that also on our numbers. As we discussed a couple of times, today this industry is everyday more capital intensive. So, again in terms of new customers, in terms of new networks and clearly, digitalization is part of this process. We've been improving margins already almost three years in a row or even more. We reached already the upper part of the curve. I don't think so. Maybe the pace could be a little bit lower in the future, but we'll still see some room in order to improve furthermore. And again, we need this improve in terms of margins because we need more investments in infrastructure, in information technology because the industry has become much more digital. And that we are still maybe a bit back in terms of the digitalization with some other industry. So, it's still an ongoing process, but we clearly see that there is still a bit of room to improve in terms of margins.

Diego Aragão (Goldman Sachs) - That's make a lot of sense, Adrian. Thank you very much for these. And if I may, just very quickly, any thoughts on consolidation? I mean, after you get the, let's say, the green light from Telecom Italia to eventually pursue some acquisitions in Brazil, I think market was expecting to hear something about it. So, is there anything, any progress that you can share with us? Thank you.

Adrian Calaza (CFO) - Thank you for the question, Diego. As we mentioned also a couple times, this company was supposed three or four years ago to be the target and we are now in a completely different situation. If you see, our financial situation is extremely healthy, our leverage is extremely low, we've been working a lot in order to put us in this situation because we think that there will be a consolidation in this market. If you see all the mature markets in the world – in almost every of these countries there are three operators, there are some countries that didn't two operators. So we think that this consolidation will eventually come and we want to be prepared. This said, we are not working on any process these days. We're analyzing everything. We have a deep knowledge of the numbers of each of the competitors and on – in every possible target, but today we're focused on what we need to deliver in organic terms, but again, we'll see what happens in the near future.

Diego Aragão (Goldman Sachs) - Very clear, Adrian. Thank you very much.

Operator - Ladies and gentlemen, without any more questions, I am returning to Mr. Sami Foguel for his final remark.

Sami Foguel (CEO) - Thank you. I want to congratulate our team for this strong 4Q performance. They worked very, very hard to deliver these results. I also want to thank our clients who chose TIM every day of their lives and investors who share our vision for long-term value generation.

We are planning events over the next weeks, so I'm sure we will have the chance to discuss our results and new plan in further detail. Thank you all, once again, for participating in our conference call. Have a great afternoon and I hope we can meet soon.

Operator - We conclude now, the fourth quarter of 2018 conference call of TIM Participações. Your line can be disconnected from now on. For further information and details of the company, please access our website, www.tim.com.br/ir. Thank you.