



Local Conference Call

TIM Participações

3Q18 Results

November 7, 2018

Operator: Good morning, ladies and gentlemen. Welcome to TIM Participacoes' 2018 Third Quarter Results Conference Call.

We would like to inform you that this event is being recorded. (Operator Instructions) There will be a replay for this call on the company's website.

(Operator Instructions) We highlight that statements that we make regarding the prospects, projections and goals of TIM Participacoes constitute the beliefs and assumptions of the company's board of executive officers. Future considerations are not performance warranties. They involve risks, uncertainties and assumptions, as they refer to events that may or may not occur. Investors should understand that internal and external factors to TIM Participacoes may affect their performance and lead to different results than those planned.

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

Sami Foguel - TIM Participações S.A. - CEO

Good morning, everyone, and thanks for attending our earnings release conference call. This is the first formal opportunity to interact with the financial community since I was appointed CEO. It's an honor to be part of this strong group. TIM Brasil has significant opportunities ahead, which makes this moment special for all of us.

Over the last 100 days, I dove deeply into TIM Brasil. I visited stores, call centers and operational areas. I spoke with hundreds of employees. I also dedicated significant time talking and obtaining feedback from clients. Additionally, I engaged with the regulator, press and financial community. I got feedback from all of them on how to make TIM an even better operator.

I found a strong and vibrant leadership team engaged on doing the right thing and continuing the positive transformation. At the same time, I brought new leadership to our customer care area with a recognized track record on customer experience and efficiency. Together with a renovated CTIO structure, we are already working in several war rooms to improve customer experience and efficiency across the board.

My vision for TIM is one of evolution, not revolution. We are building on a strong base to become the best operator in Brazil: the one customers love the most, the one with the highest engagement levels in employees and the one with the highest shareholder returns.

Moving now to results. In my first quarter at TIM, I had the privilege of delivering solid results, with significant EBITDA margin growth, solid free cash flow expansion, resilient revenues, important operational and network metrics and renovated focus in customer experience.

Despite a tougher macroeconomic environment and increasing competition level, total net revenues maintained a solid pace, growing 4.4% year-on-year and reaching BRL 4.3 billion. This quarter, the main contributors to growth were in mobile client-generated revenues, up 3.1%, and the outstanding expansion of 36% in TIM Live revenues, both year-on-year comparisons.

Mobile dynamics continue to be driven by ARPU and the expansion of high-value customer base. Our mobile ARPU reached BRL 22.6, growing more than 10% when compared to last year, while we continued to lead (inaudible) postpaid net additions.

The transformation of our mobile customer base through migration and upsell processes continued to be key. Our [hybrid] segment maintained a very solid performance, with ARPU growing close to 8% year-on-year and acquisition numbers rising 11% quarter-over-quarter. One important driver for this performance was the offer and (inaudible) campaign launched in September.

The higher segment of postpaid was in a harsh environment. Since the beginning of the year, peer postpaid competition increased. As a reaction, TIM placed more focus on lock-in offers to improve loyalty and securitization of its clients. This strategy is working well, and the number of customers with a lock-in offer grew by threefold. A large portion of these customers became pure postpaid through upsell processes, showing that (inaudible) to pure migration are resilient.

At the end of the third quarter, competitive pressure in postpaid seemed to have eased, but we are yet to confirm this as we approach important promotional dates in November and December.

Prepaid competition, on the other hand, seems to be rising. The launch of aggressive offers in the last 2 months can weaken trends for the entire sector. Nonetheless, in the third quarter the main attack for prepaid performance came from macro environment and unemployment rates, especially at the bottom of the pyramid.

If the mobile operation was marked by resilience and growth, on the fixed business front we keep having exciting news with TIM Live. During the third quarter, we reached 12 municipalities with our ultra broadband proposition. And in the beginning of October we launched TIM Live in the new state capital. So now we are also present in Manaus.

When we arrive in those new cities with a connection that is 6x faster than the average speed in the market and with solid content offers, our proposition is well received by customers. On average, we are outperforming our business plans with identified opportunities to perform even better. Along with the geographical expansion, we are maintaining a strong execution to sustain TIM Live's robust revenue.

Supporting by mobile and fixed expansion while coping with the data boom requires a rock-solid execution of the network development plan. We are again delivering strong results that are positively impacting the customer experience. We are maintaining our leadership in 4G coverage, with close to 3,200 cities. Our focus in deploying the 700-megahertz put us in a unique position. 56% of the urban population already accounts with this additional layer of frequency to use 4G. In Slide 7, we included a chart showing the positive impact of the 700 implementation.

In parallel with the 700, we continue to carry our spectrum efficiency program, now refarming portions of the 2.1-giga in the northeast. The refarming was implemented in more than 180 cities.

On the fiber front, we keep accelerating the FTTH rollout, almost doubling our coverage, to 761,000 households. We continue pushing the deployment of voice over LTE technology, now with more than 2,000 cities and 8 million users.

I want to highlight our leadership in 4G coverage, and the best way to represent this is our availability. We are the only mobile operator in Brazil to keep our clients more than 75% of the time on the 4G, and this number should go up with the accelerated deployment of the 700-megahertz and the refarming of the 2.1-giga.

Finally, I want to celebrate our leadership in ISD ranking with the fastest fixed broadband speeds to watch Netflix content. So if you want to have an outstanding experience watching Netflix in Brazil, you've got to have TIM Live.

Having a more digital and self-service approach is also part of better (inaudible) our customer base, with the additional benefit of cost reductions. In this context, TIM's digital transformation program is showing strong results across the board. E-billing grew 48% year-to-date, reaching 40% penetration in the third quarter. We continue to see e-payment evolution. The ever-evolving IVR and MyTIM app keep offering clients ways of self-service.

Digital recharge has continued to advance. In the last 12 months the mix has improved by 6 percentage points.

Besides those network and digital developments, we are adjusting the organization to have an end-to-end view of the customer experience. We have new leadership to oversee the adjustments on the customer care front. Mr. [Moderrai] has just joined our team and has great experience and track record in improving the customer experience and efficiency in the telecom industry. We also integrated IT with network under the leadership of Leo De Capdeville. With that, we not only benefit from synergies, but also increase our focus on the customer experience and strong execution.

A solid start point combined with, first, the evolution of the company culture concerning a customer-centric approach; second, the servant-leadership approach, connect with customers and employees; and third, improved customer and risk management analytics will enable TIM to make this journey to differentiate itself from the rest. Indications we are in the right direction are emerging. NPS preference and satisfaction are showing early signs of improvement, but it's clear we have a long road ahead of us. This only motivates all of us and signals a strong opportunity to be captured.

Talking about costs, the combination of the digitalization program with our efficiency plan led to a total OpEx that remains healthy and under control. In the third quarter, costs were up by only 1.8% year-on-year. We are growing under inflation and performing better than expected in terms of our guidance. We closed the quarter at more than 100% of our savings target for 2018.

Among our OpEx trends, it's worth explaining bad debt dynamics, as it is the main contributor to growth. Bad debt represents about 2% of the gross revenues and is line with the industry levels. Nonetheless, we believe we can do better. Growing from a prepaid to a postpaid operator requires a next-step expertise on risk management. We launched efforts on the collection front that are showing fairly positive signs, and we'll now further invest in credit capabilities and analytics to maintain and expand growth with improved delinquents control.

Finally, we understand and work on efficiency in a broad sense. Efficiency comes from cost control, but also from financial and fiscal initiatives. We are prepaying expensive debt. We delivered on third Q a significant corporate structure simplification, much more efficient to shareholders, and we completed the analysis on fiscal credits that are pending to be booked over next quarters.

As described until now, solid execution led to resilient revenues and controlled costs that combined to produce a brilliant EBITDA of BRL 1.7 billion, once again a record high number, year-on-year comparisons at a solid high single-digit growth, while margin expanded 150 basis points to another record, of 38.9%, among the highest in the industry.

Normalized net income in the first 9 months of the year totaled BRL 973 million, growing 54% year-on-year. The third quarter contributed with BRL 388 million.

CapEx evolution is showing a strong dynamic throughout the year, summing BRL 2.6 billion after 9 months. In this scenario, EBITDA minus CapEx grew 45% year-on-year, reaching BRL 753 million in the third quarter; operating free cash flow year-to-date expanding BRL 485 million, totaling more than BRL 1.2 billion.

I'd like to highlight the positive results in the third quarter and our ability to execute. Our view is to close the year solidly and start 2019 at a good pace.

I close my initial comments reinforce my commitment to help TIM Brasil evolve to be the best operator into the industry. 3 pillars will be key to achieve this: having the most engaged and creative group, being the first provider most loved by clients and the most profitable operator in sector.

We will now open the floor for questions. Please, Operator?

Q&A

Operator

(Operator Instructions) Our first question comes from Andre Baggio, J.P. Morgan.

Andre Baggio

I have 2 questions. First one relates to the revenue. We saw deceleration. So which kind of levers do you think you can use in order to prevent further deceleration from current levels?

Sami Foguel - TIM Participações S.A. - CEO

We continue to focus on execution of strategic upgrades from prepaid to postpaid is successful. We continue to evolve. And we enter the last quarter, this season is very positive for us. So we are focused on execution. And also work on prepaid and postpaid product offerings which are promising to next quarters. Talking about Live, I think Live has a very positive trend and is also a positive upside to the future.

Andre Baggio - Okay, Sami. The other thing that we have saw very good results on the cost cutting, and we welcome that, for sure. Do you think that trend still can continue into next year or two? So do you think there is more space for managing efficiency at TIM?

Adrian Calaza (CFO) - Adrian Calaza, CFO. As you know, we discussed a lot about our efficiency plan that was increased a couple of times. You know that our target of efficiency is something around BRL 1.7 billion for 2020, compared to the base of 2016. Today we are ahead of our plan of this year. If you saw the numbers, we are around 104% of what we project for the whole year.

There is still work to do, but we feel that there is still a lot of room to reach higher levels of efficiency. We maintain our target of efficiency for next years. We are working on our next plan in these months. We think that we will try to have additional challenges and to increase our targets.

And again, as we said a few times, it's not only a matter of normal efficiency or cost contention; it's also a matter of what the digitalization of all the processes brings, not only in terms of customer experience but also in terms of costs. So we are focused on that. We think that we should have additional sources of efficiencies coming forward.

Operator - The next question comes from **Diego Aragao, Goldman Sachs**.

Diego M. Aragão (Goldman Sachs) - So my first question is for Sami. On your opening remarks you mentioned that you don't want to reinvent the business, but rather to work on the evolution of TIM. So my question for you is, what are your main priorities for the next 2 years, main targets? And what do you need to do to get to these goals?

Sami Foguel (CEO) - Thanks, Diego. One side we're investing a lot is the customer experience customer cycle. This is very important, and this can have a positive impact not only on efficiency, but also on churn. We need to go to the next level in terms of churn in the industry and TIM, for sure. So definitely we'll invest on that. As a part of that, the digital channels are very important. We need to continue improving the digital journey of our clients, the ability for self-serve and the ability for them to go to a new level of engagement with TIM. Talking more internally, reinvestment on our people. We want to attract and maintain the best

and most talented people in the industry so that we can deliver this exceptional service to the client. Finally, but not least importantly, we want to be the most profitable operator in the industry. We are already (inaudible) for a very high standpoint, but we foresee for the next years, as you asked, opportunities to go a next step. So those are the 3 main pillars: our customers, our people and our return to shareholder.

Diego M. Aragão - Very clear, Sami. And if I may, my second question is related more to M&A. Just want to get your view for (inaudible) in the country. And more specifically, if you can just walk through your views for both Nextel and also for the largest incumbent in the country, Oi, it will be great.

Sami Foguel - Diego, we are always looking to assets, and we will do what makes strategic fit and valuation fit. So I'll not comment specifically on any of those 2, because those 2 follows under this umbrella. Are they -- do they make sense strategically for us and are they in the right valuation?

Maria Tereza Azevedo (UBS Investment Bank) - My first question is on the mobile side. You are pretty much in line to meet your guidance in terms of top line growth, but can you share with us your view so far on the fourth quarter? Do you see better performance of the prepaid (inaudible) to a higher data usage? And what is your view on the competitive environment for the rest of the year in mobile?

Sami Foguel - Thanks for the question. We are focused on execution. We are very focused on execution. We have a strong quarter ahead of us in terms of seasonality. So we are working hard on this to perform.

Maria Tereza Azevedo - And in terms of competition, do you think it's rational? Or do you see any threats from your competitors?

Sami Foguel - Competition, I mentioned in the postpaid we saw early signs of more accommodation. On prepaid, on the other hand, we saw over the last 45 days a more dynamic environment that can impact the entire sector.

Maria Tereza Azevedo - Perfect. And then my follow-up question would be on the fixed side. You're executing very well on TIM Live. Do you see any room to accelerate your TIM Live expansion and maybe increase your CapEx allocation towards fixed line?

Sami Foguel - TIM Live is definitely a priority for us. We deployed CapEx in those cities, 12 cities, now 13 cities. There are upside from the CapEx already deployed of course that should be extracted. We should be mindful in terms of CapEx and CapEx allocation, but also continue to grow.

Adrian Calaza - Maria Tereza, let me add something because your question if we will accelerate we can accelerate the deployment of TIM Live. You know that we always try to see this business very carefully, because you need to be very careful on how you grow. We will try to grow in a very strong way, but very carefully, keeping our base.

We feel that we need to prepare a lot our machine in order to continue to deploy this network, but we are stick to our plans. We are very happy that, as Sami has mentioned before, on average we're performing better than we projected. But we have a lot to do, not only in terms of deployment but in terms of internal process. It's important to make it with profitability, every business, especially this one, because you know that repayments on this business are higher than the mobile.

So again we need to be very careful with the allocation of our CapEx, and that's where we are.

Walter Paul Piecyk – (BTIG) First, on the strategy question, I know you were saying that you're going to look to see what makes sense from a valuation standpoint and strategy. But all things equal, is more spectrum more interesting than getting a fixed business where you can have a more integrated approach? I would think that having fixed added through Oi would be more compelling. I know it's not an either-or type of situation, but that would seem a kind of higher priority for the company. Could you please comment on that?

Adrian Calaza – (CFO) It's Adrian. You know that we talked several times about this. Of course spectrum in terms of needs is a priority. We are working a lot on our own spectrum to be much more efficient. We did a lot of refarmings. We started the refarming of the 2.1-giga frequencies. Maybe later Leo can go further on this. On the fixed side it's more difficult because we always said that we want to grow on the fixed side, especially on the consumer side, in an organic way, and that's our strategy. Of course on the fixed side there is a lot -- regarding the fiber networks in terms of fiber-to-the-city or in terms of our backbone. There are several opportunities in the market. But again, we are focused on our own strategy and trying to grow in an organic way on the fixed. It's always an analysis of make-or-buy on the fixed side.

Walter Paul Piecyk – BTIG- That's a helpful answer. And a similar question is on your capital investment. If you look back in 2016, CapEx as a percent of just the service revenue, not the total revenue, was over 30%. And between your revenue growth and the reductions in capital, it's down to 23% despite some moves in currency. I understand that if you did have the opportunity to buy Nextel at a low price there might be some more investment for spectrum. But in the long term, is it possible to get CapEx as a ratio of revenue down below 15%? Elsewhere, or

throughout the world, you see operators are able to do this. Obviously, a lot of those operators have higher ARPU's and the tax situation is maybe a little different, but where do you think the long-term target is for capital investment as a percent of service revenue?

Adrian Calaza - You know that we gave a guidance for CapEx for these 3 years, so 2018-2020, of something around BRL 12 billion. And that's assuming that our guidance for 2020 was something around 20% of service revenues. But I think that 50% on revenues, it's a number of the past in a lot of operators. And again, in our case you need to see what we are doing also on our EBITDA. So we tried to focus also in terms of operating free cash flow. So that's why we gave a guidance for 2020 of an EBITDA minus CapEx of 20%. So asking your question, 50% is not on our mind. We will try to reach our target of 2020 of something around 20%.

Walter Paul Piecyk – BTIG - But if you bought Nextel, I assume that 3-year target might increase because you'd need to invest in that network?

Adrian Calaza – CFO -

I'll pass the floor to Leo, but let me tell you that increasing your spectrum allows you to control your investments, because either you add capacity with spectrum or with additional sites. But I'll leave the floor to Leo to answer this question.

Leonardo De Carvalho Capdeville (CTO) - It's Leo De Capdeville. In fact, let's see. All the integration among industrial companies has some kind of CapEx. There also should be put on that to capture a future value. So the same will happen if you will bring some assets. It can be Nextel, Oi, whatever. But again what we see, as Adrian commented, is that when we make this kind of movement it's because it makes sense not just in a short but in a medium and long term. So we will analyze that very carefully. Talking a little bit about the spectrum, what we'd like to highlight is that what we have learned in the last 3 years is that spectrum is always a great news from the engineer perspective, I'd say, but that there are a lot of ways to use in a more efficient the spectrum that we already have. We did that in 1,800. We are now doing the same in 700. And again, we are the first and the unique company in Brazil to use the

2.1-gigahertz, reform that from the 3G to 4G. We did that in a lot of cities, in northeast, specifically, in some capitals. The result is very, very good. And now we think we should have news from the regulator, the antitrust here in Brazil, that we have approved to evolve our (inaudible) sharing from the mobile to (inaudible). What it means that we probably have something around 30% more capacity over the existing spectrum of our

2.6-gigahertz. This is the (inaudible) that we have with (inaudible). So again, if we have an opportunity to have more spectrum. All right. Sorry for that. Going ahead. So again, if we have more spectrum we use that in the better way possible. But with the spectrum that we already are using, we are discovering day-by-day a new efficient way to use data to provide the better customer experience.

Diego M. Aragão - So actually, just to follow up on what Leo said about the 2.1, I just want to understand whether you are using this frequency for 4G and how is the handset market for the 2.1. So just want to clearly understand what you can do with the 2.1.

Leonardo De Carvalho Capdeville - CTO

In fact, we started to use the 2.1 in Teresina. That is a capital city in northeast. And we now have that in all the capital cities in northeast. Specifically, in 2 main cities, that is Salvador and Fortaleza, we already are using 10 megahertz from 2.1 that it was refarmed from the 3G to 4G. The second question about the handsets, we have already 80% of our devices support this frequency. So it's a very good opportunity for us.

Just to highlight one number that is in the presentation, in Fortaleza City we already have 30% of the total 4G traffic carrying on 2.1-gigahertz network. The good of that is that the (inaudible) is exactly the same; we just are making a movement in terms of a softer approach. So it's very quickly to launch, and it is the same way that we had in the 1,800. Talking about the throughput in Fortaleza, the throughput growth, more than 30% with this new frequency. And now we are moving this kind of movement from the northeast for south and southeast. Why we can do that? Because again, as Sami mentioned, we have a very, very pointed strategy to keep the customer on 4G network. And remember that we launched the VoLTE, voice over LTE, and now we already overpass 18 million customers using that. With these 2 movements, we started to have the decline of the usage in 3G network. So it's (inaudible) we have the opportunity to move the frequencies, the spectrum, from 3G to 4G.

Diego M. Aragão - Understood. So just if I may, so what is easier for you to refarm, the 1.8 or the 2.1?

Leonardo De Carvalho Capdeville - Now we are refarming the 2.1 gigahertz from 3G to 4G.

Operator

(Operator Instructions) Without any more questions from analysts, we would now like to start the Q&A session with the press, in English.

Vicente Ferreira (Head of IR) - So the first question comes from [TeleTimes]. The journalist is [Bruno Marua], and he is asking about the 2.1 refarming and what are the plans to coverage beyond the northeast. I believe, please, Leonardo De Capdeville, our CTIO, will answer this question. Please, Leo?

Leonardo De Carvalho Capdeville -

Bruno, what I can anticipate it is that our idea in the future is that probably the most part of the spectrum will be, let's say, switched on for the 4G technology. And why that? Because now more than 85% of the total traffic now in our network is already generated by 4G devices. We did that in northeast. Now we are preparing the network in other cities, as Belo Horizonte, Curitiba and Florianopolis to go on the same direction. So we are preparing all the adjustments on the network to reform these cities. It's probably it will happen in the first quarter on the next years. But again I'd like to highlight that it is just a possible because we did in the past the direct investment in the refarming of the 1,800 and to usage in a very, very aggressive way, let's say, the 700. Because with that we have a continuous coverage in 4G and we can maintain the customer more in 4G than in other technologies.

Vicente Ferreira (Head of IR) The next question comes from Mobile Times. The journalist is Isabel, and she wants some clarification on how we intent to accelerate the migration from prepaid to postpaid segments. This question, our CEO, Sami Foguel, will answer. Please, Sami?

Sami Foguel - Thanks, Isabel, for the question. We continue our strategy that it is not only to prepaid to controlled and controlled to postpaid but also controlled to a higher controlled, controlled to peer and peer to higher peer. So actually maintaining the pace with those internal movements, as well.

Operator

Ladies and gentlemen, without any more questions, I am returning to Mr. Sami Foguel to his final remarks. Please, Mr. Sami, you may proceed.

Sami Foguel -

Thanks all for attending today's conference call. See you soon, and next quarter we'll be here again. Thanks.

Operator

Thus, we conclude the third quarter 2018 conference call of TIM Participacoes. Your lines can now be disconnected. For further information and details of the company, please access our website, www.tim.com.br/ir

and take the opportunity to download TIM IR app, available for download for Android and iOS platforms. Thank you.