Earnings Release 2Q18

Algar Telecom

+8.8%

B2B gross revenue in the Telecom segment grew by 8.8%.

43.1%

Normalized EBITDA margin reached 43.1% in Telecom and 34.2% consolidated.

+22.5%

Consolidated net income increased by 22.5%.

Uberlândia – MG, August 2018 – Algar Telecom, a telecom services company in the corporate (B2B) and retail (B2C) segments, releases its earnings for the second quarter of 2018 (2Q18).

Our interim and consolidated statements were compiled in accordance with International Financial Reporting Standards IAS 34 for Interim Financial Information issued by the International Accounting Standards Board ("IASB") and CPC 21 (R1) - Interim Financial Statements issued by the Accounting Pronouncements Committee ("CPC"), Brazilian accounting practices ("BRGAAP") and Brazilian Securities Commission ("CVM") rules, in local currency (Reais, R$). Unless stated otherwise, comparisons relate to the 2nd quarter of 2017 (2Q17).

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2Q18 HIGHLIGHTS

TELECOM

B2B

- With presence in the South, Southeast and Midwest regions of Brazil, Algar Telecom began its operations in the Northeast and opened an office in Fortaleza, where a metropolitan network of more than 1,100 km of fiber optic was built to deliver services to corporate clients and micro and small companies. The Company's goal is to reach 7 states in the NE, having started selling in Fortaleza, João Pessoa and Natal;
- The number of B2B customers grew 11.7% and gross revenue increased by 8.8%;
- Gross revenue from ICT services grew more than 150%, materializing the Company's strategy of leveraging the offer of these services;

B2C

- Fixed broadband accesses increased by 7.7% in 2Q18 (y-o-y) and totaled 457,000 customers. Of this total, 52% is ultra-high-speed broadband (UBL services – speed faster than 10 Mbps), a net addition of 52,000 accesses (28.2%) in the period;
- Net additions of postpaid mobile customers was 40,000 (13.8% y-o-y). In the quarter, the increase was 5.2%, more than double the average (2.4%) of the previous 4 quarters;

STRONG FINANCIAL PERFORMANCE WITH THE HIGHEST OPERATIONAL MARGIN OF THE SECTOR

- S&P increased the Company's credit rating from "brAA-" to "brAAA" with a stable outlook;
- Net operating revenue grew by 5.2% (y-o-y) in 2Q18, maintaining the positive trend of previous periods;
- EBITDA margin reached 46.0% in Telecom (43.1% recurrent) and remains the highest in the sector;
- The Tech – BPO/Managed IT segment's EBITDA margin reached 12.4% in 2Q18, reflecting initiatives regarding operational efficiency, digitalization and revision of the scope of loss-making contracts, which are being implemented by the Company. Consolidated EBITDA increased by 23.6% (y-o-y) with a margin of 36.2% (34.2% recurrent);
- Consolidated Net Income increased by 22.5% (y-o-y) and totaled R$79.9 million in 2Q18;
- Investments in 2Q18 are 38% higher than in 2Q17 as a result of network expansion in the Telecom segment.

ECONOMIC AND FINANCIAL PERFORMANCE

SUMMARY - CONSOLIDATED INCOME STATEMENT[1]

R$ million

	2Q17	1Q18	2Q18	Δ Year	Δ Quarter	6M17	6M18	Δ Year
GROSS REVENUE	**881.8**	**913.0**	**908.2**	**3.0%**	**-0.5%**	**1,737.3**	**1,821.2**	**4.8%**
Telecom	**641.2**	**666.2**	**665.4**	**3.8%**	**-0.1%**	**1,265.8**	**1,331.6**	**5.2%**
B2B	352.0	375.1	383.0	8.8%	2.1%	694.9	758.0	9.1%
B2C	297.2	299.2	287.2	-3.4%	-4.0%	587.2	586.3	-0.2%
Telecom Eliminations*	(8.0)	(8.1)	(4.8)	-	-	(16.3)	(12.7)	-
Tech - BPO/Managed IT	**240.6**	**246.8**	**242.8**	**0.9%**	**-1.6%**	**471.5**	**489.6**	**3.8%**
Tech - BPO/Managed IT	250.6	258.8	255.3	1.9%	-1.4%	492.4	514.1	4.4%
Eliminations	(10.0)	(12.0)	(12.5)	-	-	(20.9)	(24.5)	-
Taxes and deductions	(211.2)	(206.4)	(202.4)	-4.2%	-1.9%	(413.0)	(408.8)	-1.0%
NET REVENUE	**670.6**	**706.6**	**705.8**	**5.2%**	**-0.1%**	**1,324.3**	**1,412.4**	**6.7%**
EBITDA	**206.8**	**210.6**	**255.6**	**23.6%**	**21.4%**	**376.9**	**466.2**	**23.7%**
Margin %	*30.8%*	*29.8%*	*36.2%*	-	-	*28.5%*	*33.0%*	-
EBIT	**125.8**	**123.8**	**166.9**	**32.7%**	**34.8%**	**217.3**	**290.7**	**33.8%**
Financial, net	(28.9)	(39.0)	(48.2)	66.8%	23.6%	(70.6)	(87.2)	23.5%
NET INCOME	**65.2**	**56.1**	**79.9**	**22.5%**	**42.4%**	**98.4**	**135.9**	**38.1%**
Margin %	*9.7%*	*7.9%*	*11.3%*	-	-	*7.4%*	*9.6%*	-

*Elimination between B2B and B2C customers and with the Tech - BPO/Managed IT segment.

CONSOLIDATED GROSS REVENUES

Algar Telecom's consolidated gross revenues reached R$908.2 million in 2Q18 to show a 3.0% growth against 2Q17. This increase mainly reflects the 8.8% increase of the Telecom segment's revenues from B2B customers, compared to the same period last year.

[1] The 2Q18 and 6M18 figures already include the effects of the implementation of Technical Pronouncement CPC 47 – Revenue from Contracts with Customers, correlated to International Accounting Standards – IFRS 15. The net effects on the Company's figures are as follows:

	2nd Quarter of 2018 (2Q18)			1st Half of 2018 (6M18)		
(R$ million)	Telecom	Tech	Consolidated	Telecom	Tech	Consolidated
Net Revenue	0.8	(0.1)	0.7	2.1	(1.4)	3.3
Operating expenses	(0.2)	0.0	(0.2)	(2.2)	0.0	2.2
EBIT and EBITDA	0.7	(0.1)	0.6	4.0	(1.4)	5.2
Income tax and social contribution	(0.1)	0.0	(0.1)	(1.3)	0.5	1.7
Net Result	0.5	(0.1)	0.5	2.7	(0.9)	3.5

R$ million

GROSS REVENUE	2Q17	1Q18	2Q18	Δ Year	6M17	6M18	Δ Year
Telecom	**641.2**	**666.2**	**665.4**	**3.8%**	**1,265.8**	**1,331.6**	**5.2%**
B2B	**352.0**	**375.1**	**383.0**	**8.8%**	**694.9**	**758.1**	**9.1%**
Data	265.4	305.5	301.9	13.8%	523.5	607.3	16.0%
Voice	49.0	47.4	47.9	-2.2%	99.4	95.3	-4.1%
VAS	2.8	4.1	4.3	52.1%	5.1	8.4	63.1%
Other services	34.8	18.2	28.9	-16.9%	66.9	47.1	-29.6%
B2C	**297.2**	**299.2**	**287.2**	**-3.4%**	**587.2**	**586.3**	**-0.1%**
Fixed broadband	75.6	79.7	80.1	6.0%	151.2	159.9	5.7%
Fixed voice service	68.8	68.7	61.5	-10.6%	136.3	130.2	-4.4%
Fixed VAS	5.1	9.4	9.7	91.7%	7.8	19.1	145.8%
Mobile broadband	38.8	41.2	43.7	12.6%	75.5	84.9	12.4%
Wireless voice service*	63.5	37.7	40.3	-36.6%	127.8	78.0	-39.0%
Mobile VAS*	3.9	24.1	20.2	416.2%	7.1	44.2	524.5%
Pay-TV	30.4	31.1	25.1	-17.5%	61.1	56.1	-8.1%
Other services	11.1	7.3	6.5	-41.1%	20.5	13.9	-32.5%
Eliminations	(8.0)	(8.1)	(4.8)	-	(16.3)	(12.8)	-
Tech - BPO/Managed IT	**240.6**	**246.8**	**242.8**	**0.9%**	**471.5**	**489.6**	**3.8%**
Tech - BPO/Managed IT	250.6	258.7	255.3	1.9%	492.4	514.1	4.4%
Eliminations	(10.0)	(11.9)	(12.5)	-	(20.9)	(24.5)	-
Gross operating revenues	**881.8**	**913.0**	**908.2**	**3.0%**	**1,737.3**	**1,821.2**	**4.8%**
Taxes and deductions	(211.2)	(206.4)	(202.4)	-4.1%	(413.0)	(408.8)	-1.0%
Net operating revenues	**670.6**	**706.6**	**705.8**	**5.2%**	**1,324.3**	**1,412.4**	**6.7%**

* In 2Q18, continuing the process of improving the breakdown of revenue lines by type of customer, a model adopted by the Company at the end of 2017, segregated VAS revenues that were previously included in the other revenue groups.

TELECOM

Our Telecom segment revenues reached R$665.4 million in 2Q18, a 3.8% growth against the same quarter of 2017, driven by B2B revenues, which increased by 8.8% in the period and offset the slight drop in B2C revenues.

B2B

In 2Q18, revenues from B2B customers, which accounted for 57% of Telecom's total revenues, totaled R$383.0 million, an increase of 8.8% driven by the growth in data solutions, which increased by 13.8%. This performance reflects the Company’s geographic expansion strategy, with the offer of telecom and ICT[2] solutions provided to an increasing number of small, medium and large-sized companies. ICT services are a strategic focus of the Company and its offer has been intensified, growing over 150% in the half-year comparison.

[2] Services ranging from colocation and hosting to cloud and videoconferencing, included in revenue from data services.

Revenue from voice services, in turn, dropped by 2.2%, due to the lower wireless voice services provided to small-sized companies in the Company's concession area. VAS services, which mainly include some network security services, accounted for R$4.3 million, an increase of 52.1% over 2Q17.

Other services offered to B2B customers decreased by 16.9% mainly reflecting a negative impact of R$5.7 million in 2Q18 due to the new accounting standards set forth by IFRS 15.

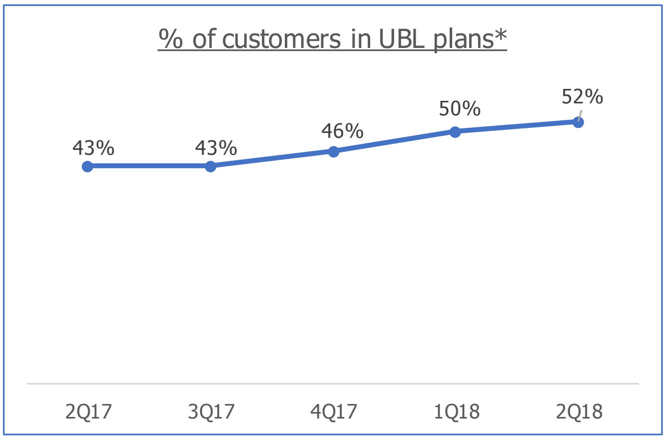
At the end of June 2018, the number of corporate and micro and small business clients had grown by 17.8% and 11.0% over 2Q17, respectively. In July 2018, the Company began operations in the Northeast of Brazil with the opening of a technical-commercial office in the city of Fortaleza. The Monet cable system connects the cities of Fortaleza and Praia Grande (SP) to the city of Boca Raton (Florida/USA), which is why Ceará is the first of 7 Northeastern states in which the Company intends to operate.

B2B Operational data	2Q17	1Q18	2Q18	Δ Year	Δ Quarter
Number of customers (unit)					
Total	**89,564**	**98,330**	**100,075**	**11.7%**	**1.8%**
Corporate	10,169	11,534	11,982	17.8%	3.9%
Micro and small business	79,395	86,796	88,093	11.0%	1.5%

B2C

Revenues from B2C customers, for whom the Company offers converging broadband, fixed-line and mobile services and pay-TV packages, totaled 287.2 million in 2Q18, 3.4% lower than in 2Q17. This variation was mainly driven by lower revenues from mobile and TV services.

Revenues from fixed broadband, the main service in the retail segment, grew by 6.0% and totaled R$80.1 million in 2Q18, as a result of the 7.7% increase in the access number and the continued migration of customers to higher speed plans, which have higher average tickets. At the end of 2Q18, 52% of retail fixed broadband customers had plans for speeds faster than 10 Mbps.



* UBL: speed faster than 10 Mbps.

Revenue from fixed voice services fell by 10.6%, despite a 1.1% increase in the number of accesses, mainly reflecting the segregation of VAS services, which are complementary to the voice plans and were accounted for in this revenue line. Lastly, VAS revenues from fixed services totaled R$9.7 million, compared to R$5.1 million in 2Q17, an increase of R$4.6 million.

Mobile telephony services increased by 12.6% in broadband revenues, reflecting the growing demand for mobile connectivity for videos, applications and social networks. Voice revenues, in turn, accounted for R$40.3 million, a decrease of 36.6% over 2Q17, as a result of the drop in the number of customers (down 1.8%), but mainly due to the migration from voice to data usage and the increasing use of applications, games and others, which are recognized as VAS revenues.

Pay-TV revenues totaled R$25.1 million in 2Q17, 17.5% lower than in 2Q17, due to the Company's strategy of promoting the sale of 3 or 4 products in bundlings, implemented a few quarters ago.

Revenues from other services reached R$6.5 million, 41.1% lower than in 2Q17, mainly explained by the effects of the new accounting standards set forth by IFRS 15.

Total mobile customers fell by 1.8% compared to June 2017 due to net disconnections from prepaid customers, whose number dropped by 6.6%. On the other hand, postpaid customers registered a net positive increase of 40,000 customers in the period, a growth of 13.8%, as a result of a marketing campaign, launched at the end of April 2018, offering unlimited voice and data plan for a fixed price. Consequently, the number of postpaid customers had an increase of 5.2% in the quarter, more than double the average (2.4%) of the last 4 quarters. Therefore, despite the drop in the total number of customers, ARPU was R$20.46, 3.7% higher than in 2Q17.

B2C Operational data	2Q17	1Q18	2Q18	Δ Year	Δ Quarter
REVENUE GENERATING UNITS (THOUSAND)	**2,272**	**2,283**	**2,286**	**0.6%**	**0.2%**
Fixed broadband	**424**	**450**	**457**	**7.7%**	**1.6%**
Up to 10MB	241	226	222	-7.9%	-1.7%
Over 10MB	184	225	236	28.2%	4.9%
Fixed-line telephony	**537**	**541**	**543**	**1.1%**	**0.4%**
Mobile telephony	**1,221**	**1,201**	**1,199**	**-1.8%**	**-0.2%**
Postpaid clients	291	315	331	13.8%	5.2%
Prepaid clients	930	887	868	-6.6%	-2.1%
PAY-TV	**90**	**90**	**87**	**-3.4%**	**-3.9%**
ARPU - mobile (R$)	**19.73**	**21.60**	**20.46**	3.7%	-5.3%

TECH – BPO/MANAGED IT

The Tech – BPO/Managed IT segment's consolidated gross revenues reached R$242.8 million in 2Q18, a 0.9% increase against 2Q17, driven by higher revenues, mainly from customer relationship management/BPO, Telecom services management and LATAM operations, partially offset by lower revenues from IT infrastructure, which is mainly explained by one-off revenues with colocation services and the transfer of the hosting operations from Jaraguá to Algar Telecom in 2Q17. In 6M18, total revenue from this segment was R$489.6 million, 3.8% higher than in the same period of the previous year. Excluding the effect of the transfer of operations to Algar Telecom, this variation represented an increase of 5.5%.

CONSOLIDATED NET REVENUES

Algar Telecom's consolidated net revenues totaled R$705.8 million in 2Q18 and R$1,412.4 in 6M18, a growth of 5.2% and 6.7% against the same periods of 2017, respectively. The lower volume of intercompany eliminations in the Telecom segment is due to the merger of Algar Celular S.A. with the Company in April 2018.

CONSOLIDATED COSTS AND EXPENSES

Consolidated operating costs and expenses, excluding amortization and depreciation, decreased by 2.9% in the period, from R$463.8 million in 2Q17 to R$450.2 million in 2Q18. In 6M18, costs and expenses were practically stable, showing a reduction of 0.1% in relation to 6M17.

R$ million

OPERATING COSTS AND EXPENSES	2Q17	1Q18	2Q18	Δ Year	Δ Quarter	6M17	6M18	Δ Year
	(463.8)	**(496.0)**	**(450.2)**	**-2.9%**	**-9.2%**	**(947.4)**	**(946.2)**	**-0.1%**
Personnel	(236.6)	(246.7)	(223.5)	-5.5%	-9.4%	(477.1)	(470.2)	-1.4%
Materials	(13.1)	(15.5)	(15.9)	21.4%	2.6%	(26.7)	(31.5)	17.7%
Outsourced services	(110.7)	(121.5)	(124.9)	12.8%	2.8%	(229.1)	(246.4)	7.6%
Interconnection and means of connection	(30.2)	(32.7)	(26.3)	-12.9%	-19.6%	(66.1)	(59.0)	-10.7%
Advertising and Marketing	(15.9)	(12.1)	(13.8)	-13.2%	14.0%	(25.3)	(25.9)	2.2%
Provision for doubtful debts	(6.2)	(6.5)	(7.7)	24.2%	18.5%	(13.8)	(14.2)	2.5%
Rent and insurance	(44.4)	(48.9)	(39.8)	-10.4%	-18.6%	(88.6)	(88.7)	0.2%
Other*	(6.7)	(12.1)	1.7	-125.3%	-114.0%	(20.7)	(10.3)	-50.2%

* Includes other operating revenues (expenses).

Personnel

Personnel costs and expenses totaled R$223.5 million in 2Q18, 5.5% (R$13.1 million) up year-on-year, due to lower costs in the Telecom and Tech segments – reflecting improvements in processes and audits and lower commercial expenses in the Tech segment – a temporary result from changes in the Company's organizational structure. In 6M18, personnel costs and expenses showed a decrease of 1.4% over 6M17.

Materials

Costs and expenses for materials were 21.4% (R$2.8 million) higher in 2Q18 compared to 2Q17 mainly due to higher expenses on materials used in the Tech segment's telecom service tower construction works, a direct cost to the customer service. In 6M18, this increase was 17.7% compared to the same period of 2017.

Outsourced services

Costs and expenses for outsourced services totaled R$124.9 million against R$110.7 million in the same period of the previous year, a 12.8% (R$14.2 million) increase, mainly due to: (i) an increase of R$2.2 million in data maintenance and data center costs, a direct impact on revenue growth; (ii) an increase of R$1.6 million in expenses with commissions and of R$2.5 million in expenses with software licensing for the data center; and (iii) an increase of R$2.9 million in expenses with consulting to support the gains from efficiency and digitalization projects. In 6M18, these costs and expenses presented a growth of 7.6%.

Interconnection and means of connection

Telecom segment's interconnection costs ended the quarter at R$26.3 million, which was 12.9% less than in 2Q17, due to fees being lowered in February 2018 and the merger of Algar Celular S.A. with the Company in April 2018. In 6M18, these costs decreased by 10.7%.

Advertising and marketing

Advertising and marketing expenses totaled R$13.8 million in 2Q18, down 13.2% against 2Q17, due to institutional campaigns held in 2Q17. In 6M18, these expenses increased by 2.2%.

Provision for doubtful debts

Provision for Doubtful Debts expenses totaled R$7.7 million in 2Q18, compareed to R$6.2 million in 2Q17. Despite the increase in this expense, due to revenue growth, the Provision for Doubtful Debts/Gross revenue ratio was 0.8% on a consolidated basis and 1.0% in the Telecom segment, reflecting the Company's austerity in relation to its credit and collection measures. In 6M18, Provision for Doubtful Debts expenses reached R$14.2 million, maintaining a stable Provision for Doubtful Debts/Gross revenue ratio of 0.8%.

Rent and insurance

Rents and insurance costs and expenses totaled R$39.8 million in 2Q18, 10.4% lower than the R$44.4 million registered in the same period of 2017. This decrease is mainly due to the intensification of the sharing of operational sites and partially offset by higher post rental costs, explained by the Company's geographical expansion. In 6M18, these costs and expenses remained practically stable (+0.2%).

Other

Other costs and expenses totaled an income of R$1.7 million in 2Q18, compared to an expense of R$6.7 million in 2Q17. This variation (of R$8.4 million) was mainly due to the write-off of R$14.3 million in deferred taxes. This non-recurring revenue more than offset the natural dynamics of recognition of provisions in the business.

EBITDA

R$ million

	2Q17	1Q18	2Q18	Δ Year	Δ Quarter	6M17	6M18	Δ Year
Telecom	**174.6**	**192.8**	**227.6**	**30.3%**	**18.0%**	**339.0**	**420.4**	**24.0%**
%	37.9%	39.1%	46.0%	-	-	37.1%	42.6%	-
Tech - BPO/Managed IT	**32.2**	**17.8**	**28.0**	**-13.2%**	**57.4%**	**37.9**	**45.8**	**20.7%**
%	14.5%	7.8%	12.4%	-	-	8.7%	10.1%	-
CONSOLIDATED	**206.8**	**210.6**	**255.6**	**23.6%**	**21.4%**	**376.9**	**466.2**	**23.7%**
margin	30.8%	29.8%	36.2%	-	-	28.5%	33.0%	-

TELECOM

In 2Q18, the Telecom segment posted EBITDA of R$227.6 million, up by 30.3% on 2Q17. Excluding the non-recurring effect in the amount of R$14.3 million, arising from the reversal of the provision mentioned above, growth was 22.1%, driven by the higher B2B share in the Company's revenues and by ongoing efficiency measures. EBITDA margin was 46.0% and, excluding the non-recurring effect, 43.1%, an increase of 5.2 p.p. compared to the 37.9% reached in 2Q17.

In 6M18, EBITDA increased by 24.0% and the margin rose from 37.1% to 42.6%. Excluding non-recurring effects in the amount of R$22.3 million, the recurring margin for the first half of 2018 was 40.3%.

TECH – BPO/MANAGED IT

In 2Q18, the Tech – BPO/Managed IT segment's EBITDA totaled R$28.0 million, compared to R$32.2 million in 2Q17. EBITDA margin was 12.4% in 2Q18 and 14.5% in 2Q17. This decrease is explained by non-recurring operating effects that positively impacted the 2Q17 EBITDA by R$5.0 million. Excluding these effects, the 2Q17 margin was 12.2%. The improvement of this segment's EBITDA over the course of 2018, which went from 7.8% in 1Q18 to 12.4% in 2Q18, shows the results of the operational efficiency measues being implemented by the segment and the evolution of its portfolio of services, which has a greater number of digital tools that generate higher productivity in its operation and better results for its customers, as well as the revision of the scope of loss-making contracts.

CONSOLIDATED

As a result of the combination of the two business segments, Algar Telecom recorded consolidated EBITDA of R$255.6 million in 2Q18, up by 23.6% against the same quarter of the previous year. On a recurring basis, growth was 16.7%, reaching a margin of 34.2%, compared to 30.8% in 2Q17. In 6M18, recurring EBITDA reached 17.8% and EBITDA margin increased by 3 p.p.

DEPRECIATION AND AMORTIZATION

We recorded R$88.7 million in depreciation and amortization, 9.5% higher than in 2Q17, reflecting the higher level of investments in recent periods, in projects mainly aiming at the expansion and modernization of networks and improved quality of the Company's services.

FINANCIAL RESULT

In 2Q18, net financial expenses were R$48.2 million, compared to R$28.9 million in 2Q17, an increase of 66.8% (R$19.3 million). This result was caused by a combination of (i) financial revenues lower by R$12.1 million, mainly due to the reversal of a provision related to the FUST fund in the amount of R$9 million in 2Q17 and the drop of R$2.1 million in financial contingencies of the Tech segment arising from the merger of the subsidiaries Asyst and Rhealeza; and (ii) financial expenses higher by R$7.2 million, mainly due to expenses incurred in the pre-payment of some debt agreements that have been replaced by others with better rate and term conditions. In 6M18, net financial expenses were 23.5% higher.

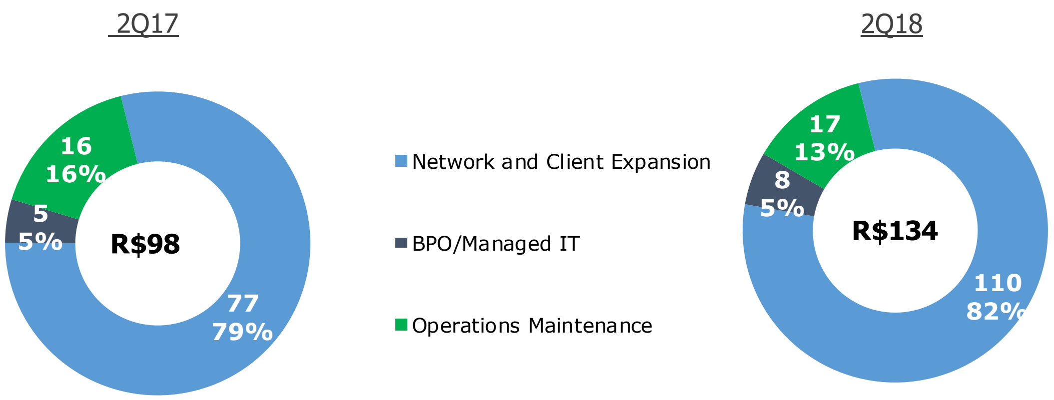
NET INCOME FOR THE PERIOD

Algar Telecom ended 2Q18 with R$79.9 million in net income, a 22.5% growth against 2Q17 due to higher cash generation as measured by EBITDA partially offset by higher depreciation and net financial expenses. Operating margin was 11.3%, compared to 9.7% in 2Q17. In 6M18, net income reached R$135.9 million, an increase of 38.1% over the same period of the previous year.

INVESTMENTS

Algar Telecom invested R$134.4 million in 2Q18 against R$97.6 million in the same period of the previous year, an increase of 37.6%, due to network expansion and modernization. In 6M18, investments totaled R$248 million, 26.9% higher than in 2017. Of the quarter's use of funds, (i) 82% was invested in the expansion of our networks for the provision of services to B2B customers and connection of customers, as well as the extension of ultra-high-speed broadband networks; (ii) 13% was allocated to operational maintenance and (iii) 5% to our Tech – BPO/Managed IT segment.

R$ million



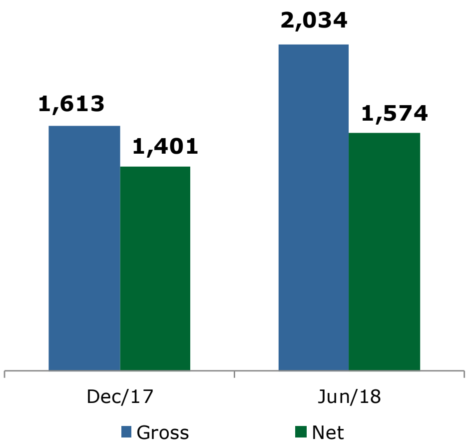
DEBT

At the end of June 2018, the Company's consolidated gross debt was R$2,034.2 million, 26.1% higher than in December 31, 2017, explained by two debt issues made in 2Q18 (the 7th public issue of debentures and the 1st public issue of promissory notes), partially offset by the already scheduled amortizations of current debts.

Net debt ended the quarter at R$1,574.2 million, 12.4% higher than in December 2017, as part of the funds raised will be used to finance investments during the year.

The total amount raised in 2Q18 was R$800.5 million (R$600 million in debentures and R$200.5 million in promissory notes), aimed at financing investments in the year and promoting the replacement of some debt agreements, reducing costs and lengthening the average maturity.

Debt (R$ million)

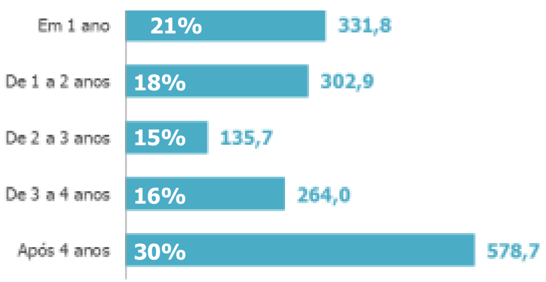


Therefore, the Company, which already had a long-term debt profile, now has 12% of its debt maturing in the short term and 79% in 2 years or more. The net debt/EBITDA ratio[1] stood at 1.8x, in line with its financial covenants.

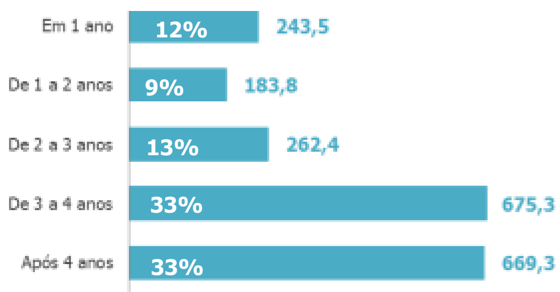
On July 11, 2018, S&P reviewed the Company's credit rating, which went from brAA- to brAAA, with a stable outlook.

Gross debt aging (R$ million)

Dec/17 – R$1,613



Jun/18 – R$2,034



[1]To calculate our Net Debt/EBITDA ratio, we consider the balance of R$5.3 million from the acquisition of Optitel in 2015, which was allocated to Payables (current liabilities) and Other liabilities (noncurrent liabilities), in addition to R$37.1 million recognized in the Obligation to acquire equity interest line.

ANNEX I – CONSOLIDATED OPERATING DATA

Operational Data	2Q17	1Q18	2Q18	Δ Year	Δ Quarter
REVENUE GENERATING UNITS (THOUSAND)	**3,622**	**3,783**	**3,823**	**5.6%**	**1.1%**
Fixed broadband	**500**	**534**	**542**	**8.5%**	**1.7%**
Up to 10MB	268	251	245	-8.7%	-2.2%
Over 10MB	232	283	297	28.4%	5.1%
Fixed-line telephony	**1,720**	**1,870**	**1,909**	**11.0%**	**2.1%**
Mobile telephony	**1,304**	**1,281**	**1,278**	**-2.0%**	**-0.3%**
Prepaid clients	945	902	883	-6.5%	-2.1%
Postpaid clients	359	379	394	9.8%	4.0%
PAY-TV	**98**	**98**	**94**	**-3.5%**	**-3.8%**
ARPU - mobile (R$)	**19.73**	**21.60**	**20.46**	**3.7%**	**-5.3%**

ANNEX II – CONSOLIDATED INCOME STATEMENT (R$ MILLION)

	2Q17	1Q18	2Q18	Δ Year	Δ Quarter	6M17	6M18	Δ Year
GROSS REVENUE	**881.8**	**913.0**	**908.2**	**3.0%**	**-0.5%**	**1,737.3**	**1,821.2**	**4.8%**
Telecom	**641.2**	**666.2**	**665.4**	**3.8%**	**-0.1%**	**1,265.8**	**1,331.6**	**5.2%**
B2B	352.0	375.1	383.0	8.8%	2.1%	694.9	758.0	9.1%
B2C	297.2	299.2	287.2	-3.4%	-4.0%	587.2	586.3	-0.2%
Telecom Eliminations*	(8.0)	(8.1)	(4.8)	-	-	(16.3)	(12.7)	-
Tech - BPO/Managed IT	**240.6**	**246.8**	**242.8**	**0.9%**	**-1.6%**	**471.5**	**489.6**	**3.8%**
Tech - BPO/Managed IT	250.6	258.8	255.3	1.9%	-1.4%	492.4	514.1	4.4%
Eliminations	(10.0)	(12.0)	(12.5)	-	-	(20.9)	(24.5)	-
Tax and deductions	(211.2)	(206.4)	(202.4)	-4.2%	-1.9%	(413.0)	(408.8)	-1.0%
NET REVENUE	**670.6**	**706.6**	**705.8**	**5.2%**	**-0.1%**	**1,324.3**	**1,412.4**	**6.7%**
OPERATING COSTS AND EXPENSES	**(472.5)**	**(502.4)**	**(464.8)**	**-1.6%**	**-7.5%**	**(956.6)**	**(967.1)**	**1.1%**
Personnel	(236.6)	(246.7)	(223.5)	-5.5%	-9.4%	(477.1)	(470.2)	-1.4%
Materials	(6.9)	(9.1)	(9.7)	40.6%	6.6%	(14.2)	(18.8)	32.4%
Outsourced services	(110.7)	(121.5)	(124.9)	12.8%	2.8%	(229.1)	(246.4)	7.6%
Interconnection and means of connection	(30.2)	(32.7)	(26.3)	-12.9%	-19.6%	(66.1)	(59.0)	-10.7%
Advertising and Marketing	(15.9)	(12.1)	(13.8)	-13.2%	14.0%	(25.3)	(25.9)	2.4%
Provision for doubtful debts	(6.2)	(6.5)	(7.7)	24.2%	18.5%	(13.8)	(14.2)	2.9%
Rent and insurance	(44.4)	(48.9)	(39.8)	-10.4%	-18.6%	(88.6)	(88.7)	0.1%
Other	(15.4)	(18.5)	(12.9)	-16.2%	-30.3%	(29.9)	(31.3)	4.7%
Cost of goods sold	(6.2)	(6.4)	(6.2)	0.0%	-3.1%	(12.5)	(12.6)	0.8%
OTHER OPERATING REVENUES (EXPENSES)	**8.7**	**6.4**	**14.6**	**67.8%**	**128.1%**	**9.2**	**20.9**	**127.2%**
EBITDA	**206.8**	**210.6**	**255.6**	**23.6%**	**21.4%**	**376.9**	**466.2**	**23.7%**
Margin %	30.8%	29.8%	36.2%	-	-	28.5%	33.0%	-
Depreciation and amortization	(81.0)	(86.8)	(88.7)	9.5%	2.2%	(159.6)	(175.5)	10.0%
EBIT	**125.8**	**123.8**	**166.9**	**32.7%**	**34.8%**	**217.3**	**290.7**	**33.8%**
Financial, net	(28.9)	(39.0)	(48.2)	66.8%	23.6%	(70.6)	(87.2)	23.5%
INCOME BEFORE TAXES	**96.9**	**84.8**	**118.7**	**22.5%**	**40.0%**	**146.7**	**203.5**	**38.7%**
Income and social contribution taxes	(31.7)	(28.7)	(38.8)	22.4%	35.2%	(48.3)	(67.6)	40.0%
NET INCOME	**65.2**	**56.1**	**79.9**	**22.5%**	**42.4%**	**98.4**	**135.9**	**38.1%**
Margin %	9.7%	7.9%	11.3%	-	-	7.4%	9.6%	-

*Elimination between B2B and B2C customers and with the Tech - BPO/Managed IT segment.

[1] The 2Q18 and 6M18 figures already include the effects of the implementation of Technical Pronouncement CPC 47 – Revenue from Contracts with Customers, correlated to International Accounting Standards – IFRS 15. The net effects on the Company's figures are as follows:

	2nd Quarter of 2018 (2Q18)			1st Half of 2018 (6M18)		
(R$ million)	Telecom	Tech	Consolidated	Telecom	Tech	Consolidated
Net Revenue	0.8	(0.1)	0.7	2.1	(1.4)	3.3
Operating expenses	(0.2)	0.0	(0.2)	(2.2)	0.0	2.2
EBIT and EBITDA	0.7	(0.1)	0.6	4.0	(1.4)	5.2
Income tax and social contribution	(0.1)	0.0	(0.1)	(1.3)	0.5	1.7
Net Result	0.5	(0.1)	0.5	2.7	(0.9)	3.5

ANNEX III – CONSOLIDATED COSTS AND EXPENSES (R$ MILLION)

	2Q17	1Q18	2Q18	Δ Year	Δ Quarter	6M17	6M18	Δ Year
NET REVENUE	**670.6**	**706.6**	**705.8**	**5.2%**	**-0.1%**	**1,324.3**	**1,412.4**	**6.7%**
COST OF SERVICES AND GOODS	**(401.0)**	**(431.0)**	**(398.5)**	**-0.6%**	**-7.5%**	**(813.3)**	**(829.6)**	**2.0%**
Cost of services	**(394.8)**	**(424.6)**	**(392.3)**	**-0.6%**	**-7.6%**	**(800.8)**	**(817.0)**	**2.0%**
Personnel	(171.2)	(179.6)	(162.4)	-5.1%	-9.6%	(344.9)	(342.1)	-0.8%
Materials	(6.3)	(8.4)	(9.3)	47.6%	10.7%	(13.0)	(17.7)	36.1%
Outsourced services	(74.3)	(79.0)	(77.6)	4.4%	-1.8%	(151.6)	(156.7)	3.3%
Interconnection and means of connection	(30.2)	(32.7)	(26.3)	-12.9%	-19.6%	(66.1)	(59.0)	-10.7%
Rent and insurance	(38.5)	(42.6)	(34.1)	-11.4%	-20.0%	(76.5)	(76.7)	0.3%
Depreciation and amortization	(66.7)	(72.9)	(74.8)	12.1%	2.6%	(132.3)	(147.7)	11.6%
Other	(7.6)	(9.4)	(7.8)	2.6%	-17.0%	(16.4)	(17.2)	4.5%
Cost of goods	**(6.2)**	**(6.4)**	**(6.2)**	**0.0%**	**-3.1%**	**(12.5)**	**(12.6)**	**0.9%**
GROSS PROFIT	**269.6**	**275.6**	**307.2**	**13.9%**	**11.5%**	**511.1**	**582.8**	**14.0%**
COMMERCIAL EXPENSES	**(95.1)**	**(98.8)**	**(98.0)**	**3.0%**	**-0.8%**	**(178.5)**	**(196.8)**	**10.2%**
Personnel	(40.4)	(39.0)	(36.2)	-10.4%	-7.2%	(76.8)	(75.2)	-2.0%
Materials	(0.3)	(0.3)	(0.3)	0.0%	0.0%	(0.6)	(0.7)	5.3%
Outsourced services	(16.8)	(22.8)	(26.1)	55.4%	14.5%	(31.9)	(48.9)	53.3%
Advertising and Marketing	(15.9)	(12.1)	(13.8)	-13.2%	14.0%	(25.3)	(25.9)	2.2%
Provision for doubtful debts	(6.2)	(6.5)	(7.7)	24.2%	18.5%	(13.8)	(14.2)	2.5%
Rent and insurance	(4.2)	(5.3)	(4.9)	16.7%	-7.5%	(8.4)	(10.2)	21.7%
Depreciation and amortization	(5.8)	(6.0)	(6.1)	5.2%	1.7%	(11.3)	(12.2)	7.9%
Other	(5.5)	(6.8)	(2.9)	-47.3%	-57.4%	(10.4)	(9.5)	-8.6%
GENERAL AND ADMINISTRATIVE EXPENSES	**(57.4)**	**(59.4)**	**(56.8)**	**-1.0%**	**-4.4%**	**(124.4)**	**(116.2)**	**-6.6%**
Personnel	(25.0)	(28.1)	(24.9)	-0.4%	-11.4%	(55.5)	(52.9)	-4.6%
Materials	(0.3)	(0.4)	(0.1)	-66.7%	-75.0%	(0.6)	(0.5)	-19.3%
Outsourced services	(19.6)	(19.7)	(21.2)	8.2%	7.6%	(45.5)	(40.8)	-10.4%
Rent and insurance	(1.7)	(1.0)	(0.8)	-52.9%	-20.0%	(3.7)	(1.8)	-51.8%
Depreciation and amortization	(7.6)	(6.9)	(6.8)	-10.5%	-1.4%	(14.2)	(13.8)	-2.9%
Other	(3.2)	(3.3)	(3.0)	-6.3%	-9.1%	(4.9)	(6.5)	30.9%
OTHER OPERATING REVENUES (EXPENSES)	**8.7**	**6.4**	**14.6**	**67.8%**	**128.1%**	**9.2**	**20.9**	**128.2%**
Depreciation and amortization	(0.9)	(0.9)	(0.9)	0.0%	0.0%	(1.9)	(1.9)	0.0%
Other	9.6	7.3	15.4	60.4%	110.2%	11.1	22.8	106.4%
EBIT	**125.8**	**123.8**	**166.9**	**32.7%**	**34.8%**	**217.3**	**290.7**	**33.8%**

[1] The 2Q18 and 6M18 figures already include the effects of the implementation of Technical Pronouncement CPC 47 – Revenue from Contracts with Customers, correlated to International Accounting Standards – IFRS 15. The net effects on the Company's figures are as follows:

	2nd Quarter of 2018 (2Q18)			1st Half of 2018 (6M18)		
(R$ million)	Telecom	Tech	Consolidated	Telecom	Tech	Consolidated
Net Revenue	0.8	(0.1)	0.7	2.1	(1.4)	3.3
Operating expenses	(0.2)	0.0	(0.2)	(2.2)	0.0	2.2
EBIT and EBITDA	0.7	(0.1)	0.6	4.0	(1.4)	5.2
Income tax and social contribution	(0.1)	0.0	(0.1)	(1.3)	0.5	1.7
Net Result	0.5	(0.1)	0.5	2.7	(0.9)	3.5

ANNEX IV - BALANCE SHEET (R$ MILLION)

	12/31/2017	30/6/2018	Δ
ASSET	**3,694.4**	**4,113.8**	**11%**
Current assets	**887.5**	**1,226.2**	**38%**
Cash and cash equivalents	212.0	460.0	117%
Accounts receivable	549.9	566.2	3%
Inventory	24.0	34.2	43%
Taxes recoverable	71.2	76.8	8%
Income and social contribution taxes to compensate	0.0	4.7	-
Prepaid expenses	19.0	68.3	259%
Other credits	11.4	68.3	499%
Non-current assets	**2,806.9**	**2,887.6**	**3%**
Taxes recoverable	62.6	64.8	4%
Deferred income and social contribution taxes	38.4	36.5	-5%
Judicial deposits	36.3	37.2	2%
Other credits	17.1	27.9	63%
Investments	0.1	0.1	0%
Property, plant and equipment	2,124.4	2,173.6	2%
Intangible	528.0	547.4	4%
LIABILITIES AND SHAREHOLDERS' EQUITY	**3,694.4**	**4,113.8**	**11%**
LIABILITIES	**2,524.4**	**2,802.6**	**11%**
Current liabilities	**1,041.5**	**803.3**	**-23%**
Loans and financing	87.9	29.2	-67%
Debentures	220.2	183.1	-17%
Suppliers	282.1	204.0	-28%
Taxes, fees and contributions	116.5	88.4	-24%
Income and social contribution taxes payable	8.8	9.1	3%
Payroll and social charges	176.9	173.9	-2%
Dividends payable	60.6	4.7	-92%
Amounts to be refunded to shareholders	35.9	31.0	-14%
Obligation to acquire equity interest	0.0	23.1	-
Anticipated revenue	29.7	38.8	31%
Securities payable	9.0	7.3	-19%
Other liabilities	13.9	10.6	-24%
Non-current liabilities	**1,482.9**	**1,999.3**	**35%**
Loans and financing	101.8	21.0	-79%
Debentures	1,130.2	1,526.2	35%
Promissory Notes	0.0	199.2	
Payroll and social charges	9.5	8.3	-13%
Deferred income and social contribution taxes	22.9	40.3	76%
Provisions	132.6	144.7	9%
Obligation to acquire equity interest	41.6	14.1	-66%
Anticipated revenue	32.7	38.3	17%
Other liabilities	11.6	7.1	-39%
EQUITY	**1,170.0**	**1,311.2**	**12%**
Social capital	721.4	721.4	0%
Capital reserve	431.6	431.6	0%
Asset valuation adjustment	19.0	18.7	-2%
Other comprehensive income	(23.9)	(23.9)	0%
Proposed additional dividends	21.9	0.0	-
Retained earnings	0.0	163.4	-
Equity attributable to controlling shareholders	1,170.0	1,311.2	12%
Equity attributable to non-controlling shareholders	0.0	0.0	-

ANNEX V – CASH FLOW (R$ MILLION)

	30/6/2017	30/6/2018	Δ
Cash flow from operating activities			
Net (Loss)/Profit before Income Tax and Social Contribution	146.7	203.5	56.8
Adjustments to reconcile (loss)/profit to cash generated by operating activities:			
Depreciation and amortization	159.6	175.5	15.9
Equity	0.0	0.0	0.0
Gain / loss on sale of property, plant and equipment	4.3	1.4	(2.9)
Net financial charges	70.6	87.2	16.6
Write-off of deferred tax liabilities	0.0	(15.8)	(15.8)
Provision for doubtful debts	13.8	14.2	0.4
Constitution of provisions	1.9	11.9	10.0
	396.9	**477.9**	**81.0**
Changes in assets and liabilities			
(Increase) in accounts receivable	(22.7)	(30.6)	(7.9)
(Increase) reduction in inventories	(4.6)	(10.2)	(5.6)
(Increase) reduction in recoverable taxes	3.4	(7.9)	(11.3)
Increase in judicial deposits	(8.0)	(2.1)	5.9
(Increase) in prepaid expenses	(27.2)	(13.6)	13.6
Reduction in other current and non-current assets	0.3	(3.5)	(3.8)
Increase in suppliers	(11.0)	(19.9)	(8.9)
Increase in social obligations	1.1	(4.2)	(5.3)
Reduction in taxes, fees and contributions	0.4	(28.1)	(28.5)
Increase (decrease) in securities payable	4.6	0.0	(4.6)
Increase (decrease) in other current and non-current liabilities	(0.6)	(5.5)	(4.9)
Provisions paid	(6.7)	(6.7)	0.0
Income tax and the contribution on profit, paid	(22.1)	(40.0)	(17.9)
Cash and cash equivalents generated by operating activities	304.0	305.7	1.7
Cash flow from investing activities			
Investments in subsidiaries	(2.1)	(7.3)	(5.2)
Property, plant and equipment and intangible assets	(254.8)	(288.4)	(33.6)
Credits with related parties, received	3.1	0.0	(3.1)
Dividends received	0.0	0.0	0.0
Cash and cash equivalents allocated to investing activities	(253.8)	(295.7)	(41.9)
Cash flow from financing activities			
Additions to loans and debentures	432.0	900.5	468.5
Payment of principal amount of loans and debentures	(88.7)	(491.2)	(402.5)
Payment of interest/monetary variation on loans and debentures	(86.6)	(89.7)	(3.1)
Return of capital to shareholders	0.0	(5.0)	(5.0)
Payment of dividends	(61.9)	(76.6)	(14.7)
Cash and cash equivalents generated (invested) by financing activities	194.9	238.0	43.1
Increase (decrease) in cash and cash equivalents	**245.1**	**247.9**	**2.8**
Cash and cash equivalents at beginning of period	171.5	212.0	40.5
Cash and cash equivalents at end of period	416.7	460.0	43.3