



2019

SUSTAINABILITY
REPORT

**SUSTAINABLE GROWTH:
CONNECTING PEOPLE,
CULTURE AND BUSINESS**



Algar
Telecom



Business Performance

GRI 102-45, 201-1

Know below the main highlights of our performance in 2019. Due to the spin-off of Algar Tech on December, 2019, the 2019 financial figures are pro-forma. The data present the history to provide a basis for comparison only for the Telecom business. The full disclosure of our financial statements is available on the Algar Telecom's [website](#).

R\$ million	2017	2018	2019	Δ 2018/2019
Gross revenues	2,610.7	2,703.1	2,809.8	3.9%
B2B*	1,426.7	1,546.5	1,668.5	7.9%
B2C*	1,212.0	1,168.6	1,145.8	(2.0%)
Net revenue	1,884.6	2,012.6	2,126.6	5.7%
EBITDA	716.7	845.3	886.4	4.9%
Margin %	38.0%	42.0%	41.7%	(0.3 p.p.)
Recurring EBITDA	723.7	791.3	840.6	6.2%
Margin %	38.4%	39.3%	39.5%	0.2 p.p.
Net profit	227.3	266.4	303.2	13.8%
Margin %	12.1%	13.2%	14.3%	1.1 p.p.
Investments	503.3	677.7	754.6	11.3%
Total B2B Customers (un.)	95,377	104,791	128,294	22.4%

*Before intercompany eliminations.

Consolidated Operational Revenue

Algar Telecom's consolidated net revenue reached R\$2,126.6 million in 2019. The 5.7% growth (3.9% in gross revenue) was due to higher revenues from B2B customers (+7.9%), partially offset by the drop in B2C revenues (-2.0%).

B2B

With a 22.4% growth in the number of customers, B2B's gross revenue reached R\$1,668.5 million in 2019, up by 7.9% YoY. Both the geographic expansion of services and the diversification of our revenues contributed to this result.

In 2019, we arrived at 23 new locations in the South and Southeast and acquired Smart Telecomunicações, with 5,500 km of networks in and around Recife, expanding the operations in the Northeast, where we started operating in 2018.

Revenues from ICT products, which make up solutions for B2B customers, grew 50.1% compared to 2018 and reached 7.0% of B2B's revenues. At the end of 2019, this customer segment accounted for 59% of Algar Telecom's total revenues.

Number of B2B customers (units)	2017	2018	2019	Δ 2018/2019
Total	95,377	104,791	128,294	22.4%
Corporate	10,919	13,550	15,664	15.6%
Small and micro company segment (MPE)	84,458	91,241	112,630	23.4%

B2C

Gross revenue from B2C customers totaled R\$1,145.8 million in 2019, down by 2.0% YoY, affected by the drop in voice and Paid TV revenues, partially offset by the positive advance of broadband revenues.

Broadband revenues grew 9.7% in 2019, due to the advance of Fiber-to-the-Home (FTTH) revenues. The Company's total homes passed increased 34% in the year, allowing not only an increase in the number of customers connected with fiber but also the migration of customers to higher speed plans and higher Average Revenue per User (ARPU). At the end of 2019, 50% of B2C's revenues came from broadband, and 57.7% of customers were connected with fiber.

Voice revenues fell by 21.0% over 2018, mainly reflecting the continued migration of use to data services due to the maturity of the voice service. Due to this trend, the share of voice revenues in B2C's total revenues, which was 45% in 2017, fell to 35% in 2018 and 28% last year.

In Paid TV services, at the end of 2019, we entered into a partnership with SKY Serviços de Banda Larga, now offering to our clients services from the partner's TV portfolio. With this, while we give less priority to DTH and HFC technologies in our own service portfolio, we continue to ensure complete solutions to customers.

B2C operating data* (thousands)	2017	2018	2019	Δ 2018/2019
Data	515	543	569	4.6%
Landlines	756	723	708	(2.1%)
Mobile	1,286	1,259	1,278	1.5%
Paid TV	98	84	68	(18.9%)

*Data published by Anatel regarding the concession area.

Operating Costs and Expenses

Operating costs and expenses, excluding amortization and depreciation, totaled R\$1,240.3 million in 2019, up by 6.3% compared to 2018. This result was affected by positive non-recurring effects totaling R\$45.8 million. Excluding these effects, as well as the R\$54.0 million recorded in 2018, the recurring increase is 5.3%, less than the growth in revenue and which led to an increase in the operating margin.

The positive non-recurring effects recorded in other operating income/ expenses refer to:

- (+R\$138.3) million due to the exclusion of ICMS from the calculation base of the PIS and COFINS

contribution;

- (-R\$10.7) million due to revisions in contingencies and court deposits previously existing;
- (-R\$64.7) million due to the write-off of Property, plant & equipment and inventory of the TV product, resulting from the impairment of assets given the decreased number of subscribers and the partnership with SKY Serviços de Banda Larga Ltda;
- (R\$-13.1) million due to the revision of amounts recognized with the sale of modems in previous periods; and in personnel: (-R\$4.0) million due to the resizing of the Profit Sharing (PLR).

EBITDA

EBITDA reached R\$886.4 million in 2019, an increase of 4.9% over the previous year. The margin achieved was 41.7%. The expansion of B2B customer operations and the continuous effort to control costs and expenses, in addition to non-recurring positive effects, were responsible for this result. Excluding these effects, as well as the incidents in 2018, EBITDA grew by 6.2%.

EBITDA's evolution was affected by recent expansions made, arriving in a total of 64 new locations in 2018 and 2019, whose dynamics foresees initial expenses to rent sites, commercial teams and marketing expenses, and whose corresponding revenue has not yet reached its potential.

Depreciation and amortization

Depreciation and amortization expenses grew by 16.8% in 2019, due to the larger base of Property, Plant & Equipment, resulting from the expansion of networks to offer services to B2B customers and of fiber networks to serve B2C customers with FTTH.

Net financial result

We recorded a net financial result of R\$47.7 million in 2019, down by R\$77.2 million over 2018. This decrease was due to the effect of the reversal of provisions resulting from the exclusion of ICMS from the calculation base of the PIS and COFINS contribution, which affected the account in R\$111.3 million. Excluding this effect, there was an increase of R\$34.1 million, due to a higher average debt balance.

Net profit

Net Profit reached R\$303.2 million in 2019, up by 13.8% over 2018, with a 14.3% margin on net operating revenue. Adjusted for non-recurring effects of both periods, the profit went from R\$215.3 million in 2018 to R\$205.4 million in 2019. The 4.6% decrease is due to higher depreciation expenses and financial expenses to fund investments, partially offset by the increased EBITDA.

Debt

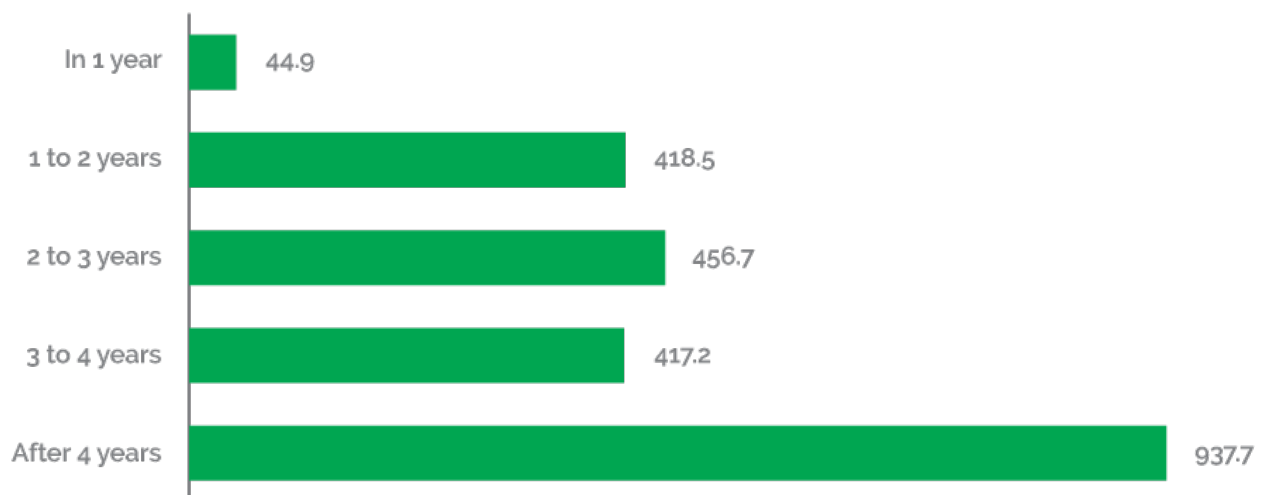
At the end of 2019, the Company recorded a gross debt of R\$2,275.1 million (R\$2,631.5 million with IFRS 16), up by 38.4% over December 31, 2018. The higher indebtedness is due to two debt issues in 2019 (8th and 9th issues of public debentures), fundraisings that allowed us to fund part of the significant investments made in the year and to start 2020 by connecting new customers to the newly built networks. Net debt, in turn, grew by 22.5% and Algar Telecom closed 2019 with a

cash balance of R\$424.4 million, a robust volume compared to the commitments expected for 2020.

Our debt profile is long-term, with 2% falling due in the short term and 79% with maturities longer than 2 years. The net debt/EBITDA ratio totaled 1.7x (2.1x with IFRS16), in line with covenants.

On December 31, 2019, 28.4% of Algar Telecom’s debt was indexed to IPCA, 71.2% to CDI and 0.4% pre-fixed.

Gross debt amortization schedule (R\$ million)



Investments

We invested R\$754.6 million in 2019, up by 11.3% over 2018. The funds were mainly used to expand operations, including the acquisition of Smart Telecom and the expansion of B2B networks, with the arrival to 23 new locations, besides the increase in fiber coverage to deliver high speed (FTTH) broadband services to retail customers.

Statement of Added Value (DVA)

R\$ '000	December 31, 2019	December 31, 2018
Revenues	3,855,886	4,595,832
Sales of goods and services	3,682,592	3,648,478
Other revenues	191,228	233,435
Recipes referring to the construction of own assets	0	735,308
Provision for doubtful debts	(17,934)	(21,389)
Inputs purchased from third parties	(1,061,812)	(1,678,840)
Cost of goods and services sold	(599,161)	(592,074)
Materials, energy, outsourced services and others	(462,651)	(1,086,766)
Gross added value	2,794,074	2,916,992
Withholdings	(364,241)	(503,367)
Depreciation, amortization and exhaustion	(364,241)	(503,367)
Net added value by the entity	2,429,833	2,413,625

R\$ '000	December 31, 2019	December 31, 2018
Added value received in transfer	73,543	155,923
Financial revenues	73,543	155,923
Added value to be allocated	2,503,376	2,569,548
Distribution of value added	2,503,376	2,569,548
Personnel	866,501	974,703
Salaries and wages	628,878	740,213
Benefits	180,799	176,142
Government Severance Fund for Employees (FGTS)	56,824	58,348
Taxes, fees and contributions	1,029,337	1,010,104
Federal	435,156	417,925
State	562,037	563,848
Municipal	32,144	28,331
Return on third-party equity	291,501	282,025
Interests	163,775	210,144
Rentals	127,726	71,881
Return on shareholders' equity	316,037	302,716
Dividends	105,082	100,653
Retained earnings/loss for the period	210,955	202,063
Non-controlling interest in retained earnings	0	0
Other	0	0