

TELEFONICA BRASIL S.A.
Form 6-K
March 27, 2018

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

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

For the month of March, 2018

Commission File Number: 001-14475

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

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

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

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

Form 20-F

Form 40-F

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

Yes

No

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes

No

X

TELEFÔNICA BRASIL S.A.

QUARTERLY INFORMATION

DECEMBER 31, 2017

(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders

Telefônica Brasil S.A.

Opinion

We have audited the accompanying parent company financial statements of Telefônica Brasil S.A. ("Company" or "Parent company"), which comprise the balance sheet as at December 31, 2017 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Telefônica Brasil S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Telefônica Brasil S.A. and of Telefônica Brasil S.A. and its subsidiaries as at December 31, 2017, and the financial performance and cash flows for the year then ended, as well as the consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the parent company and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our

audit of the parent company and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why it is a key audit matter

How the matter was addressed in the audit

Provision for tax and regulatory contingencies

The Company and its subsidiaries are parties to a number of judicial and administrative civil, labor, tax and regulatory proceedings which arise in the normal course of their activities (Notes 3 and 18 to the financial statements). With respect to these tax and regulatory areas, the Company and its subsidiaries, at December 31, 2017, present loss contingencies totaling R\$ 44 billion and R\$6.4 billion, respectively, of which R\$ 3.5 billion and R\$ 1.1 billion, respectively, had been provided for as management, supported by external legal counsel, believes the likelihood of loss to be probable.

Our audit procedures included:

- a) Obtaining confirmation from the Company's external legal counsel for ongoing tax and regulatory proceedings, as well as management's estimates of the amounts and the likelihood of loss;
- b) Having management obtain, for significant tax and regulatory proceedings, with more subjective and complex interpretations, a position from renowned, independent experts on the likelihood of loss, and the basis for a defense;

Because of the complexity of the tax and regulatory environment, the significance of the amounts involved and the critical judgment required to estimate the likelihood of loss, any changes in perspectives and/or judgment may significantly affect the financial statements of the Company and its subsidiaries.

- c) For the more significant contingencies, meeting with management to discuss and assess, with the support of our experts, when applicable, the Company's basis of conclusion;

- d) Assessing the adequacy of the disclosures presented in the notes to the financial statements; and

For these reasons, we focused on the calculation and disclosure of these contingencies during our audit.

- e) Understanding and assessing the principal internal controls over the contingency identification and registration/disclosure processes.

We have concluded that management has adequate internal controls and accounting policies, as well as supporting documentation, to provide a reasonable and consistent basis for its conclusions.

Recognition of unbilled revenue

The recognition of revenue obtained from telecommunication services is considered a significant inherent risk, because it involves complex billing systems, requiring the processing of large volumes of data across varied product portfolios, which contain pricing inputs from a number of marketing plans (Notes 3 and 23 to the financial statements).

Additionally, within this context, revenues are recognized on a monthly basis upon inflow of economic benefits and when there are the billed and unbilled revenues, arising from the services rendered between the billing date and the end of the month, being identified, processed, and recognized at the end of the service month. Unbilled revenue recorded in the month during which the services were rendered is reversed in the month subsequent to the effective billing month, and a new calculation for the measurement of unbilled revenue from services rendered during that month is made. This practice is repeated during the year.

We focused on this area during our audit because any inconsistency in the calculation of these estimates may significantly affect the financial statements of the Company and its subsidiaries.

Our audit procedures included, among others:

- a) Assessing and testing the relevant Information Technology (IT) systems;
- b) Testing the transactions of revenue from services rendered on a non-statistical sampling basis;
- c) Understanding and assessing management's estimates to determine realized unbilled revenue at the end of the year;
- d) Recalculating the estimate of revenue realized but not billed at the end of the year, and comparing these estimates with revenue effectively billed in the month after the closing;
- e) Adequacy of disclosures presented in the notes to the financial statements; and
- f) Understanding and assessing the principal internal controls over the measurement and accounting recognition of unbilled revenue from services rendered.

We have established that the internal controls and the estimates used by management have applied a reasonable basis for the recognition of revenue, consistent with the information included in the financial statements.

Internal control and information technology environment

The Company is engaged in the provision of telecommunications services and in the development of activities that are necessary or support the performance of such services. The services include: (i) Switched Fixed Telephone Service ("STFC"), (ii) Multimedia

With the support of our information technology experts, our audit procedures included the understanding and assessment of the information technology environment and the automated and manual controls over the application systems that are relevant to the preparation of the financial

Communication Service ("SCM"), data communication, statement, including broadband Internet);

(iii) Personal Mobile Service ("SMP"); and (iv) Cable Television Network (Conditioned Access Service - "SEAC"), throughout Brazil, via concessions and authorizations, as established in the General Grant Plan ("PGO"). The Company is highly dependent on its information technology structure, which processes a considerable volume of transactions from its business operations.

Because of the Company's history of acquisitions as well as the volume of the Company's transactions, its information technology structure comprises more than one technological platform, each with different processes and segregated controls, which require a robust internal control system. Management is required to closely monitor daily operations, including the follow-up and compilation of physical quantitative, financial, and fiscal information from the services rendered.

We focused on this area in our audit because we identified a number of both manual and automated operational controls, a high level of system accesses, and decentralized segregation of duties environment. The assessment of the effectiveness of the processes and controls is critical to the audit process and to the definition of the intended scope for obtaining the necessary comfort, because a failure in the controls and/or processes might result in the incorrect processing of information and, consequently, in the improper presentation of the financial statements.

The procedures carried out comprise the combination of testing of the principal controls (and, when necessary, compensatory control testing), the testing of information security components, of privileged management access and of segregation of duties, that impact the financial statements. We also tested the automated and manual accounting entries, using a sample defined based on specific criteria related to the control transgression risk.

The results of these procedures provided appropriate and sufficient audit evidence regarding the proper preparation of the financial statements.

Other matters

Statements of value added

The parent company and consolidated statements of value added for the year ended December 31, 2017, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the financial statements of the Company and its subsidiaries. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in the Brazilian Technical Pronouncements Committee CPC 09 - "Statement of Value Added". In our opinion, these statements of value added have been properly prepared, in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

Prior-year information

The financial statements for the year ended December 31, 2016 were audited by another firm of independent auditors, whose report, dated February 17, 2017, expressed an unqualified opinion on those statements.

Other information accompanying the parent company and consolidated financial statements and the auditor's report

The Company's management is responsible for the other information that comprises the Management Report.

Our opinion on the parent company and consolidated financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with the audit of the parent company and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the parent company and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the parent company and consolidated financial statements

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's responsibilities for the audit of the parent company and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the parent company and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, February 16, 2018

PricewaterhouseCoopers

Auditores Independentes

CRC 2SP000160/O-5

Estela Maris Vieira de Souza

Contadora CRC 1RS046957/O-3

TELEFÔNICA BRASIL S.A.
Balance Sheets
At December 31, 2017 and 2016

(In thousands of reais)

ASSETS	Note	Company		Consolidated		LIABILITIES
		12.31.17	12.31.16	12.31.17	12.31.16	
Current assets		16,668,039	17,482,265	16,731,666	18,398,995	Current liabilities
Cash and cash equivalents	4	3,681,173	4,675,627	4,050,338	5,105,110	Personnel, social
Trade accounts receivable	5	8,413,403	8,282,685	8,588,466	8,701,688	Trade accounts
Inventories	6	324,711	368,151	348,755	410,413	Taxes, charges and
Taxes recoverable	7.a	2,386,258	2,952,622	2,563,990	3,027,230	Dividends and interest
Judicial deposits and garnishments	8	324,465	302,349	324,638	302,424	Provisions
Prepaid expenses	9	425,298	336,508	446,439	343,092	Deferred revenue
Dividends and interest on equity	17	323,206	-	-	-	Loans and financial
Derivative financial instruments	31	87,643	68,943	87,643	68,943	Debentures
Other assets	10	701,882	495,380	321,397	440,095	Derivative financial
						Other liabilities
Noncurrent assets		85,495,114	84,475,240	84,651,169	83,667,264	Noncurrent liabilities
Long-term assets						
Short-term investments pledged as collateral		81,472	78,153	81,486	78,166	Personnel, social
Trade accounts receivable	5	167,682	200,537	273,888	305,411	Trade accounts
Taxes recoverable	7.a	740,104	474,240	743,285	476,844	Taxes, charges and
Deferred taxes	7.b	-	-	371,408	27,497	Deferred taxes
Judicial deposits and garnishments	8	6,155,821	5,974,733	6,339,167	6,049,142	Provisions
Prepaid expenses	9	21,684	35,340	23,116	36,430	Deferred revenue
Derivative financial instruments	31	76,762	144,050	76,762	144,050	Loans and financial
Other assets	10	86,345	53,363	88,935	55,565	Debentures
Investments	11	1,949,276	1,407,155	98,902	85,745	Derivative financial
Property, plant and equipment	12	33,112,532	31,837,549	33,222,316	31,924,918	Other liabilities
Intangible assets	13	43,103,436	44,270,120	43,331,904	44,483,496	
						TOTAL LIABILITIES
						Equity
						Capital
						Capital reserves
						Income reserves
						Other comprehensive
						Additional property
TOTAL ASSETS		102,163,153	101,957,505	101,382,835	102,066,259	TOTAL LIABILITIES

TELEFÔNICA BRASIL S.A.**Income Statements****Years ended December 31, 2017 and 2016****(In thousands of reais, except earnings per share)**

	Note	Company 2017	2016	Consolidated 2017	2016
Net operating revenue	23	39,343,728	38,625,395	43,206,832	42,508,411
Cost of sales	24	(19,135,195)	(18,734,552)	(20,272,530)	(20,823,011)
Gross profit		20,208,533	19,890,843	22,934,302	21,685,400
Operating income (expenses)		(15,301,695)	(14,753,448)	(16,302,065)	(15,317,422)
Selling expenses	24	(12,758,952)	(11,996,153)	(13,136,474)	(12,455,366)
General and administrative expenses	24	(2,334,905)	(2,685,366)	(2,443,105)	(2,793,388)
Other operating income	25	782,932	939,516	464,182	968,411
Other operating expenses	25	(990,770)	(1,011,445)	(1,186,668)	(1,037,154)
Operating income		4,906,838	5,137,395	6,632,237	6,368,000
Financial income	26	1,675,172	2,654,574	1,755,958	2,781,331
Financial expenses	26	(2,636,113)	(3,936,318)	(2,659,002)	(4,015,900)
Equity pickup	11	1,303,484	845,776	1,580	1,211,000
Income before taxes		5,249,381	4,701,427	5,730,773	5,134,731
Income and social contribution taxes	27	(640,591)	(616,185)	(1,121,983)	(1,049,488)
Net income for the year		4,608,790	4,085,242	4,608,790	4,085,243
Basic and diluted earnings per common share (in R\$)	22	2.56	2.27		
Basic and diluted earnings per preferred share (in R\$)	22	2.82	2.50		

TELEFÔNICA BRASIL S.A.

Statements of Changes in Equity

Years ended December 31, 2017 and 2016

(In thousands of reais)

	Capital	Capital reserves Special goodwill reserve	Other capital reserves	Treasury shares	Legal reserve	Income reserves incentive reserve	Tax modernization reserve	Expansion and modernization reserve	Re ea
Balances at December 31, 2015	63.571.416	63.074	1.297.295	(87.805)	1.703.643	6.928		700.000	-
Payment of additional dividend for 2015	-	-	-	-	-	-		-	-
Prescribed equity instruments, including unclaimed dividends and interest on equity	-	-	-	-	-	-		-	221.5
Preferred shares delivered referring to the judicial process of expansion plan	-	-	2	15	-	-		-	-

DIPJ adjustment - Tax incentives	-	-	-	-	-	10.141	-	(10.141)
Other comprehensive income	-	-	-	-	-	-	-	(156.000)
Net income for the year	-	-	-	-	-	-	-	4.085.000
Allocation of income:								
Legal reserve	-	-	-	-	204.262	-	-	(204.262)
Interim interest on equity	-	-	-	-	-	-	-	(2.170.000)
Reversal of expansion and Modernization Reserve	-	-	-	-	-	-	(700.000)	700.000
Expansion and Modernization Reserve	-	-	-	-	-	-	550.000	(550.000)
Additional proposed dividends	-	-	-	-	-	-	-	(1.910.000)
Balances at December 31, 2016	63.571.416	63.074	1.297.297	(87.790)	1.907.905	17.069	550.000	(0)
Payment of additional dividend for 2016	-	-	-	-	-	-	-	-
Unclaimed dividends and interest on equity	-	-	-	-	-	-	-	101.700
Repurchase of preferred shares	-	-	-	(32)	-	-	-	-
Preferred shares delivered referring to the judicial process of expansion plan	-	-	-	2	-	-	-	-
DIPJ adjustment - Tax incentives	-	-	-	-	-	10.815	-	(10.815)

Other comprehensive income	-	-	-	-	-	-	-	(113.000)
Equity transactions (Note 1 c.1)	-	-	(59.029)	-	-	-	-	-
Net income for the year	-	-	-	-	-	-	-	4.608.000
Allocation of income:								
Legal reserve	-	-	-	-	230.439	-	-	(230.439)
Interim interest on equity	-	-	-	-	-	-	-	(2.410.000)
Reversal of expansion and Modernization Reserve	-	-	-	-	-	-	(550.000)	550.000
Expansion and Modernization Reserve	-	-	-	-	-	-	297.000	(297.000)
Additional proposed dividends	-	-	-	-	-	-	-	(2.190.000)
Balances at December 31, 2017	63.571.416	63.074	1.238.268	(87.820)	2.138.344	27.884	297.000	(0)

TELEFÔNICA BRASIL S.A.

Consolidated Statements of Cash Flows
Years ended December 31, 2017 and 2016
(In thousands in reais)

	Company 2017	2016
<u>Cash flows from operating activities</u>		
Income before taxes	5.249.381	4.701.427
Ajustement of:		
Depreciation and amortization	7.826.184	7.166.177
Foreign exchange on loans and derivative financial instruments	60.237	75.075
Monetary losses	536.891	632.120
Equity pickup	(1.303.484)	(845.776)
Gains on write-off/sale of assets	(74.619)	(447.178)
Provision for impairment - accounts receivable	1.405.085	1.225.742
Change in liability provisions	(58.423)	214.016
Write-off and reversals for impairment - inventories	(45.109)	(34.151)
Pension plans and other post-retirement benefits	30.877	5.962
Provisions for tax, civil, labor and regulatory contingencies	990.770	953.003
Interest expense	926.220	1.009.060
Decrease divestiture	-	(20.551)
Decrease customer loyalty program	(5.856)	(39.683)
Other	(5.499)	(3)
Changes in assets and liabilities		
Trade accounts receivable	(1.502.948)	(1.373.628)
Inventories	88.549	224.264
Taxes recoverable	(338.754)	(701.786)
Prepaid expenses	25.118	112.421
Other assets	(244.434)	92.839
Personnel, social charges and benefits	(87.209)	31.694
Trade accounts payable	1.217.264	(798.909)
Taxes, charges and contributions	220.381	439.125
Other liabilities	(2.078.311)	(1.350.044)
	7.582.930	6.569.789
Cash generated from operations	12.832.311	11.271.216
Interest paid	(859.586)	(886.156)
Income and social contribution taxes paid	-	(199.605)

Net cash (used in) generated by operating activities	11.972.725	10.185.455
<u>Cash flows from investing activities</u>		
Additions to PP&E, intangible assets and others	(8.195.876)	(6.828.200)
Cash received from sale of PP&E items	19.355	778.240
Cash paid for acquisition of companies	-	-
Cash received from sale of investments	-	-
Redemption of (increase in) judicial deposits	85.179	(183.845)
Dividends and interest on equity received	384.588	767.554
Cash and cash equivalents by incorporation	-	358.579
Other	111	-
Net cash (used in) generated by investing activities	(7.706.643)	(5.107.672)
<u>Cash flows from financing activities</u>		
Payment of loans, financing and debentures	(4.485.495)	(2.001.863)
Loans and financing raised	3.055.876	466.629
Received of derivative financial instruments	104.214	132.410
Payment of derivative financial instruments	(266.548)	(239.379)
Payment for reverse split of shares	-	(164)
Dividend and interest on equity paid	(3.668.551)	(2.966.384)
Treasury shares	(32)	-
Net cash (used in) generated by financing activities	(5.260.536)	(4.608.751)
Increase (decrease) in cash and cash equivalents	(994.454)	469.032
Cash and cash equivalents at beginning of the year	4.675.627	4.206.595
Cash and cash equivalents at end of the year	3.681.173	4.675.627

TELEFÔNICA BRASIL S.A.
Statements of Other Comprehensive Income
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Note	Company 2017
Net income for the year		4.608.790
Other comprehensive income (losses) that may be reclassified into income (losses) in subsequent periods		9.867
Unrealized gains (losses) on investments available for sale	11	338
Gains (losses) on derivative financial instruments	31	(2.417)
Taxes		707
Cumulative Translation Adjustments (CTA) on transactions in foreign currency	11	11.239
Other comprehensive income (losses) to be reclassified into income (losses) in subsequent periods		(107.694)
Actuarial gains (losses) and limitation effect of the assets of surplus plan	30	(163.174)
Taxes		55.480
Interest in comprehensive income of subsidiaries	11	(6.117)
Other comprehensive income		(103.944)
Comprehensive income for the year		4.504.846

TELEFÔNICA BRASIL S.A.
Statements of Value Added
Years ended December 31, 2017
and 2016
(In thousands in reais)

	Company		Consolidated	
	2017	2016	2017	2016
Revenues	55.205.339	53.004.204	58.937.750	57.732.738
Sale of goods and services	54.919.544	53.209.390	59.265.466	57.897.521
Other revenues	1.690.880	1.020.556	1.153.299	1.183.438
Provision for impairment of trade accounts receivable	(1.405.085)	(1.225.742)	(1.481.015)	(1.348.221)
Inputs acquired from third parties	(18.696.568)	(18.491.586)	(19.942.270)	(20.418.608)
Cost of goods and products sold and services rendered	(9.316.305)	(9.919.037)	(10.412.308)	(11.611.718)
Materials, electric energy, third-party services and other expenses	(9.499.989)	(9.033.230)	(9.648.698)	(9.273.974)
Loss/recovery of assets	119.726	460.681	118.736	467.084
Gross value added	36.508.771	34.512.618	38.995.480	37.314.130
Withholdings	(7.826.184)	(7.166.177)	(7.853.734)	(7.654.406)
Depreciation and amortization	(7.826.184)	(7.166.177)	(7.853.734)	(7.654.406)
Net value added produced	28.682.587	27.346.441	31.141.746	29.659.724
Value added received in transfer	2.978.656	3.500.350	1.757.538	2.782.603
Equity pickup	1.303.484	845.776	1.580	1.244
Financial income	1.675.172	2.654.574	1.755.958	2.781.359
Total undistributed value added				

	31.661.243	30.846.791	32.899.284	32.442.327
Distribution of value added	(31.661.243)	(30.846.791)	(32.899.284)	(32.442.327)
Personnel, social charges and benefits	(3.783.519)	(3.989.707)	(4.107.176)	(4.328.985)
Direct compensation	(2.601.425)	(2.723.511)	(2.803.226)	(2.961.166)
Benefits	(996.215)	(1.081.627)	(1.101.174)	(1.167.746)
Unemployment Compensation Fund (FGTS)	(185.879)	(184.569)	(202.776)	(200.073)
Taxes, charges and contributions	(17.824.012)	(16.413.347)	(18.702.536)	(17.455.205)
Federal	(4.902.666)	(4.600.556)	(5.748.082)	(5.230.279)
State	(12.815.664)	(11.737.192)	(12.822.020)	(12.105.390)
Local	(105.682)	(75.599)	(132.434)	(119.536)
Debt remuneration	(5.444.922)	(6.358.495)	(5.480.782)	(6.572.895)
Interest	(2.579.241)	(3.868.328)	(2.598.672)	(3.941.634)
Rental	(2.865.681)	(2.490.167)	(2.882.110)	(2.631.261)
Equity remuneration	(4.608.790)	(4.085.242)	(4.608.790)	(4.085.242)
Interest on equity	(2.416.639)	(2.172.145)	(2.416.639)	(2.172.145)
Retained profit	(2.192.151)	(1.913.097)	(2.192.151)	(1.913.097)

Telefônica Brasil S.A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(In thousands of reais, unless otherwise stated)

1) OPERATIONS

a) Background information

Telefônica Brasil S.A. ("Company" or "Telefônica Brasil") is a publicly held corporation operating in telecommunication services and in the performance of activities that are necessary or useful in the rendering of such services, in conformity with the concessions and authorizations it has been granted. The Company, headquartered at Avenida Engenheiro Luiz Carlos Berrini, No. 1376, in the city and State of São Paulo, Brazil, is a member of Telefónica Group ("Group"), with headquarters in Spain and present in several countries of Europe and Latin America.

At December 31, 2017 and 2016, Telefónica S.A. ("Telefónica"), the Group holding company, held total direct and indirect interest in the Company (Note 22).

The Company is registered in the Brazilian Securities Commission ("CVM") as a publicly-held company under Category A (issuers authorized to trade any marketable securities) and has shares traded on the B3 (company resulting from the combination of activities between BM&FBovespa and CETIP – Central Custody and Settlement of Securities). The Company is also listed in the Securities and Exchange Commission ("SEC"), of the United States of America, and its American Depositary Shares ("ADSs") are classified under level II, backed only by preferred shares and traded on the New York Stock Exchange ("NYSE").

b) Operations

The Company operates in the rendering of: (i) Fixed Switched Telephone Service Concession Arrangement ("STFC"); (ii) Multimedia Communication Service ("SCM", data communication, including broadband internet); (iii) Personal Mobile Service ("SMP"); and (iv) Conditioned Access Service ("SEAC" - Pay TV), throughout Brazil, through concessions and authorizations, as established in the General Plan of Concessions ("PGO").

Service concessions and authorizations are granted by the Brazil's Telecommunications Regulatory Agency ("ANATEL"), the agency responsible for the regulation of the Brazilian telecommunications sector under the terms of Law No. 9472 of July 16, 1997 - General Telecommunications Law ("Lei Geral das Telecomunicações" - LGT), amended by Laws No. 9986, of July 18, 2000, and No. 12485, of September 12, 2011. The operation of such concessions is subject to supplementary regulations and plans.

In accordance with the STFC service concession agreement, in every two years, during the agreement's 20-year term, the Company shall pay a fee equivalent to 2% of its prior-year STFC revenue, net of applicable taxes and social contribution taxes (Note 21). The Company's current STFC concession agreement is valid until December 31, 2025.

In accordance with the authorization terms for the usage of radio frequencies associated with SMP, in every two years after the first renewal of these agreements, the Company shall pay a fee equivalent to 2% of its prior-year SMP revenue, net of applicable taxes and social contribution taxes (Note 21), and in the 15th year the Company will pay 1% of its prior-year revenue. The calculation will consider the net revenue from the application of Basic and Alternative Services Plans. These agreements can be extended only once for a term of 15 years.

The Company's authorization terms ("TA") for the operation of SMP, according to the SMP General Authorization Plan ("PGA"), are: (i) Region I - TA n. 078/2012 / PVCP / SPV-ANATEL ; (ii) Region II - TA n ° 005/2010 / PVCP / SPV-ANATEL; and (iii) Region III - TA n ° 006/2010 / PVCP / SPV-ANATEL.

The terms of authorization for the use of the radio frequency bands are granted based on the results obtained in the respective radio frequency auction conducted by ANATEL and are associated with the authorization terms for operating the service in each region.

Telefônica Brasil S.A.

NOTES TO FINANCIAL STATEMENTS

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(In thousands of reais, unless otherwise stated)

The following is a summary of the authorizations for the use of radio frequency bands, granted to the Company.

Radiofrequency	Band (MHz)		License Expiration (Year)	
450 MHz	14	(1)	2027	-
700 MHz	20	-	2029	-
850 MHz	25	(2)	2020-2028	(3)
900 MHz	5	(4)	2020-2023	(5)
1800 MHz	20	(6)	2020-2023	(5)
1900 MHz	10	(7)	2022	-
2100 MHz	20-30	(10)	2023	-
2500 MHz	40	(8)	2027-2031	(9)

(1) State SP (cities with código nacional CN 13 to 19), MG and Northeast (AL, CE, PB, PE, PI, RN and SE).

(2) Except Northeast (CN 8X) and areas corresponding to sectors 03, 22, 25, 30 and 32 of the PGO / 1998.

(3) Regional Licenses: The expiration and renewal dates depend on the region. Licenses in Rio de Janeiro and Espírito Santo should expire in 2020 and 2023, respectively.

(4) Only in some regions.

(5) MG Interior expiry date 2020; the remaining licenses will expire in 2023.

(6) 20 MHz is the most common bandwidth, but is higher in some regions (up to 50 MHz).

(7) Only Northeast (CN 8X) and areas corresponding to sectors 22, 25, 30 and 32 of PGO / 1998. The licenses should be migrated to the frequency of 2100 MHz ("L-band realignment", which allows the use of 3G technology) when approved by Anatel.

(8) 40 MHz is the most common bandwidth, but is 60 MHz in some regions.

(9) The X band will expire in 2027 and the P band will expire in 2031.

(10) 30MHz in regions where the "L band" has already been migrated to the 2100 MHz frequency; 20 MHz in other regions.

c) Relevant events occurred in 2017 and 2016

c.1) Acquisition of Terra Networks by Wholly-Owned Subsidiary

On July 3, 2017, the Company informed that its wholly-owned subsidiary Telefônica Data S.A. ("TData") has acquired all the shares representing the capital stock of Terra Networks Brasil S.A. ("Terra Networks"), owned by SP Telecomunicações Participações Ltda. ("SPTE"), one of the controlling shareholders of the Company ("Transaction").

Terra Networks is a provider of digital services (own and third-party value-added services ("VAS") and carrier billing, as well as mobile channels for sales and relationships) and advertising.

TData is a company dedicated to the exploration of VAS, as well as integrated business solutions in telecommunications, technical assistance of telecommunications equipment and networks, maintenance of equipment and networks and development of projects.

The total price paid for the acquisition of shares issued by Terra Networks was R\$ 250,000, in a single installment, with no need for any financing, using only the cash available of TData. Such value was calculated based on the economic value of the Terra Networks, according to the discounted cash flow criterion, with a base date of April 30, 2017, based on an appraisal report contracted by TData Board of Directors.

Telefônica Brasil S.A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(In thousands of reais, unless otherwise stated)

The Transaction was subject to conditions usually applicable to this type of deal, and was preceded by a legal and financial audit in relation to Terra Networks and valuation by an independent company.

The Transaction was not subject to obtaining any regulatory authorizations or approvals by the Company's regulators and the way it was structured does not change the Company's shareholding structure or cause any dilution to its shareholders, generating value to them through accelerated growth of digital services and increased operational efficiency, there are no significant costs related to the Transaction.

The purpose of the Transaction was to expand and integrate the commercial offer of digital services that can add immediate value to the customer base of TData and of the Company, as well as generating TData service offers to Terra Networks' customer base and subscribers and, thanks to the national presence of Terra Networks' operation and expertise, generate leverage for TData advertising business. In addition, since the Company has the skills to create new digital media products for mobile and advertising and Terra Networks has know-how in selling, attending and operating digital services for specific customers, the acquisition by TData will also facilitate the synergy between the companies involved, in addition to maximize the unification of the commercial conditions maintained with suppliers.

Accounting Method

Considering that business combinations between entities under common control have not yet been specifically addressed by local accounting standards (Accounting Pronouncements Committee - CPC) and International Financial Reporting Standards (IFRS), an entity is required to apply the hierarchy in paragraphs 10-12 of CPC Pronouncement 23 - Accounting Policies, Change of Estimates and Error Correction (equivalent to IAS 8) to choose the accounting policy to be adopted.

An entity may therefore choose to account for combinations of entities under common control using the Acquisition Method based on CPC 15 (R1) / IFRS 3 (R) or the carrying amount of the net assets acquired ("Pooling of Interests" or "Predecessor Value Method"), with the guidance provided by other accounting

standard-setting bodies with a Conceptual Framework similar to CPCs or IFRSs.

This Transaction, which as previously described, involves companies under common control, was accounted for at the book value of the net assets acquired ("Predecessor Value Method"), as certain requirements for the use of the acquisition method set forth in CPC 15 (R1) / IFRS 3 (R). Consequently, the difference between the consideration given in exchange for the equity interest obtained and the value of the net assets acquired was recorded in TData's equity.

Upon completion of the Transaction, as from July 3, 2017, Terra Networks became a direct subsidiary of TData and indirectly owned by the Company.

We present below the composition of the book value of identifiable net assets acquired in the amount of R\$190,971.

Telefônica Brasil S.A.**NOTES TO FINANCIAL STATEMENTS**

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(In thousands of reais, unless otherwise stated)

Current assets	163,579	Current liabilities	86,892
Cash and cash equivalents	43,351	Personnel, social charges and benefits	17,327
Accounts receivable, net	61,276	Trade accounts payable	51,198
Derivative financial instruments	404	Taxes, charges and contributions	14,643
Taxes recoverable	22,658	Derivative financial instruments	16
Other assets	35,890	Other liabilities	3,708
Noncurrent assets	228,575	Noncurrent liabilities	114,291
Deferred taxes	117,885	Personnel, social charges and benefits	508
Judicial deposits and garnishments	102,373	Taxes, charges and contributions	229
Other assets	740	General Provisions	112,874
Property and equipment, net	7,047	Other liabilities	680
Intangible assets, net	530		
		Book value of assumed liabilities	201,183
		Book value of identifiable net assets acquired	190,971
		Total consideration	250,000
Book value of assets acquired	392,154	Adjustment to equity in TData and Company	59,029

Provision for Probable Risks and Contingent Liabilities

The agreement for the sale and purchase of this Transaction contains terms and provisions common to this type of transaction, including indemnification of certain liabilities, contingent or materialized, arising from acts or facts occurring up to the date of the Transaction, reducing the amounts already provisioned for the respective contingencies , which were considered in the purchase price.

At the date of the Transaction, Terra Networks was involved in administrative and judicial proceedings related to tax, civil and labor matters, whose unfavorable outcomes are considered probable and possible, as the case may be.

Other information

The net book value of trade accounts receivable provided by Terra Networks totals R\$61,276, which does not differ from the gross amount of R\$69,995, net of estimated losses for impairment of R\$8,719.

From the date of acquisition until the conclusion of the financial statements for the period ended December 31, 2017, Terra Networks contributed R\$155,224 of consolidated net operating revenue and R\$179,615 of consolidated net income to the Company, mainly due to the recognition of R\$125,191 of income tax on tax losses and negative basis of social contribution (note 7 b).

c.2) Corporate restructuring - 2016

The Shareholders' Meeting held on April 1, 2016, approved corporate restructuring in accordance with the terms and conditions proposed on March 14, 2016.

The corporate restructuring was approved by ANATEL through Ruling No. 50,169, dated January 22, 2016, which was published in the DOU on January 28, 2016, with the conditions provided therein.

Telefônica Brasil S.A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(In thousands of reais, unless otherwise stated)

GVT Participações S.A. (“GVTPart.”) was the parent company of Global Village Telecom S.A. (“GVT”), companies controlled by the Company from May 28, 2015 to April 1, 2016. GVT was the direct controlling holder of POP Internet Ltda. (“POP”), and indirect controlling holder of Innoweb Ltda. (“Innoweb”), both with head offices in Brazil.

POP is a provider of free Internet access and content. Innoweb (subsidiary of POP) provides services using VoIP technology (voicer over IP), which allows calls using the Internet, with the facilities inherent in this environment.

The corporate restructuring occurred on the same date as the Shareholders’ Meeting mentioned above, as follows: (i) GVT was spun-off and its net assets, including assets, rights and obligations related to telecommunications activities, were absorbed by GVTPart., where as the remaining portion relating to assets, rights and obligations related to activities other than telecommunications was absorbed by POP; and (ii) the net assets of GVTPart. (after the merger of GVT’s net assets, item (i)) was merged into the Company.

The corporate restructuring intends to standardize the services provided by the companies involved in this process by (i) concentrating the rendering of telecommunication services in a single company, i.e., the Company; and (ii) migrating of activities that were provided by GVT, other than telecommunication services to POP.

As such, the simplification of the corporate structure and the centralization of the provision of telecommunication services at the Company will lead to a converging environment, facilitating consolidation and centralization in the offering of telecommunication services and simplification of service package offerings; optimizing administrative and operating costs; and standardization of the operations at the companies involved in the corporate restructuring.

Given that the merger of GVTPart. into the Company did not require a capital increase or a change in shareholders’ interest in the Company, since GVTPart. was a wholly-owned subsidiary of the Company, the replacement of shares held by the shareholders in GVTPart. with shares in the Company is not applicable. Consequently, there are no minority interests to be considered and, therefore, in accordance with the CVM’s position in similar prior cases, and under the terms of CVM Resolution No. 559/08, the provisions of article 264 of Law No. 6404/76 and its further amendments similarly do not apply.

In addition, in relation to the transaction preceding the merger of GVTPart into the Company, the replacement of shares is not applicable, given that GVT is a subsidiary of GVTPart. and of the Company itself, thus there are no minority shareholders.

Pursuant to the provisions of article 137 of Law No. 6404/76 and its further amendments, the corporate restructuring does not entitle the Company's shareholders to the right of withdrawal. Furthermore, considering that there are no minority shareholders of GVTPart., since it is a wholly-owned subsidiary of the Company, there is no question of right to withdrawal or exercise of the right to withdraw by GVTPart. non-controlling shareholders as provided for in article 136, item iv, and article 137 of Law No. 6404/76 and its further amendments.

c.3 Acquisition of GVT Participações S.A. ("GVTPart.")

Pursuant to, and for the purposes of, CVM Rule No. 358/02, the Company informed the market that its Special Shareholders' Meeting ("AGE") held on May 28, 2015 approved the ratification of the Stock Purchase Agreement and Other Covenants executed by the Company, in the capacity of "Buyer", and Vivendi and its subsidiaries (Société d'Investissements et de Gestion 108 SAS - "FrHolding108" and Société d'Investissements et de Gestion 72 S.A.), in the capacity of "Sellers", whereby all the shares issued by GVTPart were acquired by the Company.

Payment for acquisition of GVTPart. shares was made as follows: (i) €4.663 billion paid in cash after contractual adjustments for net debt assumed on the execution date; and (ii) Company- issued shares delivered to FRHolding108 as a result of the merger of GVTPart shares by the Company, representing 12% of the Company's capital stock after the merger of shares.

Telefônica Brasil S.A.

NOTES TO FINANCIAL STATEMENTS

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As a result of the merger of GVTPart. shares, the Company's capital increased by R\$9,666,021, with the issuance of 68,597,306 common shares and 134,320,885 preferred shares, all registered, no-par value shares, based on the economic value of merged shares calculated using the discounted cash flow method and on the appraisal report on GVTPart's economic value prepared by an expert firm, in accordance with article 252, paragraph 1, together with article 8, of Law No. 6404/76. The difference between the economic value of merged shares and the market value of shares issued on the transaction closing date was recognized in "Other Capital Reserves", in the amount of R\$1,188,707.

This transaction was subject to obtaining of applicable corporate and regulatory approvals, including from Brazil's Administrative Council for Economic Defense ("CADE") and ANATEL, further to other conditions usually applicable to this type of transaction. The transaction was approved by ANATEL under Act No. 448 of January 22, 2015, published in the Official Federal Gazette ("DOU") on January 26, 2015, and by CADE at the 61st ordinary session of its Trial Court, held on March 25, 2015, and published in the Official Federal Gazette ("DOU") on March 31, 2015.

Once the acquisition transaction was completed on May 28, 2015, the Company held direct interest in GVTPart and indirect interest in GVT. GVTPart. is headquartered in Brazil as its business purpose includes participation in other companies, whether national or foreign, as partner, shareholder or member. Its direct subsidiary (GVT) provides landline telephone, data, multimedia communication and pay-tv services throughout Brazilian territory.

Under IFRS 3 (R) / CPC 15 (R1) – Business Combinations, business acquisitions are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair value of assets transferred, the liabilities assumed at the acquisition date from the former acquiree's shareholders and equity interests issued in exchange for control over the acquiree.

The acquisition price was as follows:

Gross consideration in cash (4.663 billion euros)	15,964,853
(-) Contractual Adjustments (Net Debt)	(7,060,899)
Total consideration in cash, net	8,903,954
(+) Contingent Consideration	344,217
(+) Consideration in Shares at Fair Value	8,477,314
(-) Cash Flow Hedge Gain on Transaction, net of taxes (1)	(377,373)
(-) Refund according to sections 2.2.4 and 2.2.5 of SPA	(84,598)
Total consideration, net of Cash Flow Hedge	17,263,514

(1) Derivative transactions refer to cash flow hedges to protect the amount due in Euros to Vivendi, for the acquisition of GVTPart., against exchange rate variation of the amount.

A breakdown of the fair value of identifiable net assets acquired for R\$4,426,373, as well as goodwill recorded on the acquisition date are presented below. At the date of preparation of the financial statements for the year ended December 31, 2015, the Company had already completed the revisions and adjustments of the fair value determination of the identifiable assets acquired and liabilities assumed by GVTPart..

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(In thousands of reais, unless otherwise stated)

Current assets	1,557,651	Current liabilities	5,299,662
Cash and cash equivalents	390,255	Personnel, social charges and benefits	170,989
Accounts receivable	947,378	Trade accounts payable	611,425
Inventories	4,641	Taxes, charges and contributions	346,569
Taxes recoverable	147,057	Loans and financing	3,968,615
Other assets	68,320	Provisions	17,866
		Other liabilities	184,198
Noncurrent assets	12,026,239		
Short-term investment pledged as collateral	17,871	Noncurrent liabilities	3,857,855
Taxes recoverable	65,798	Trade accounts payable	67,742
Deferred taxes (4)	610,873	Taxes, charges and contributions	1,342
Judicial deposits and garnishments	551,275	Loans and financing	3,088,414
Other assets	7,052	General Provisions (3)	679,294
Property and equipment (1)	7,970,117	Other liabilities	21,063
Intangible assets (2)	2,803,253		
		Fair value of assumed liabilities	9,157,517
		Fair value of identifiable net assets acquired	4,426,373
		Goodwill (5)	12,837,141

	Total consideration, net of Cash	
Fair value of assets acquired	13,583,890	Flow Hedge
		17,263,514

- (1) This includes the allocation of appreciation of property, plant and equipment items (R\$409,601).
- (2) This includes the allocation of fair value assigned to the brand (R\$59,000), customer portfolio (R\$2,523,000), appreciation and other intangibles assets (R\$20,394).
- (3) This includes the allocation of fair value assigned to contingent liabilities (R\$512,648).
- (4) This includes the allocation of deferred taxes on contingent liabilities (R\$174,300).
- (5) This refers to goodwill recorded on the acquisition of GVTPart. based on expected synergies resulting from the business combination. This amount has already been used for tax purposes.

The main purpose of the Company's acquiring of control over GVTPart was to enable the integration of landline, mobile, data and TV telecommunication services in Brazil, with a view to operating more efficiently. The acquisition of GVTPart. allows the Company to obtain significant synergies in revenues and costs, thus generating opportunities of cross sales in the individual and corporate markets, also allowing optimization of investments, improvement of service quality, reduction of cost of content, acquisition and platform in the pay-tv business, due to economies of scale, as well as reduction of general and administrative expenses, not affecting the Company's growth potential.

The methods and assumptions used to determine the fair values were:

Customer portfolio

The customer portfolio was valued using the MEEM method ("Multi-period Excess Earnings Method"), which is based on a discounted cash flow calculation of future economic benefits attributable to the customer base, net of eliminated liabilities for contributions involving its generation.

In order to estimate the remaining useful life of the customer portfolio, an analysis of the average length of customer relationships was conducted using a churn method.

The purpose of the useful life analysis is to estimate a survival curve that anticipates future churn rates in relation to the existing customer base. The so-called IOWA curves were used as an approximation to the

customer survival curve. The fair value allocated to the customer portfolio on the acquisition date was R\$2,523,000, which will be amortized over 7.77 years on average.

Telefônica Brasil S.A.

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Brand

The fair value of "GVT" brand was determined through the "relief-from-royalty" method. This method measures the value of the asset by capitalizing the royalties saved by owning intellectual property. In other words, the owner of the brand profits from owning the intangible asset, rather than having to pay royalties for its use. The royalties saved were determined by applying a market royalty rate (expressed as a percentage of revenue) to the future expected revenues from the sale of the product or service associated with the intangible asset. The market royalty rate, normally expressed as a percentage of net revenue, is the rate a knowledgeable willing owner would charge a knowledgeable willing user for use of an asset it owns in an arm's length transaction. The fair value allocated to the brand on the acquisition date was R\$59,000, which will be amortized over 1.5 years.

Contingent Consideration

As part of the Stock Purchase Agreement and Other Covenants executed by the Company and Vivendi for the acquisition of all GVTPart-issued shares, a contingent consideration was defined for the court deposits made by GVT for the monthly installments of deferred income and social contribution taxes on the amortization of goodwill arising from the corporate restructuring process completed by GVT in 2013. In September 2014, GVT filed for a cancellation of the judicial review and the return of amounts deposited with the courts.

If GVT succeeds in receiving (being reimbursed, refunded or netting) these funds, they will be returned to Vivendi, as long as they are obtained in a final unappeasable decision. The period for returning such amount is of up to 15 years. The fair value of the contingent consideration on the acquisition date is R\$344,217, recorded in the Company's noncurrent liabilities as "Loans, Financing and Debentures" (Note 20), which is subject to monthly monetary adjustments based on the Selic rate.

Fair value of contingent liabilities

According to IFRS 3 (R) / CPC 15 (R1) - Business Combinations, the acquirer must recognize, on the acquisition date, contingent liabilities assumed in a business combination, even if it is not probable that cash outflows will be required to settle the obligation, as long as it is a present obligation arising from past events and its fair value can be measured reliably.

In compliance with these requirements, contingent liabilities were recognized the amount of R\$512,648 of contingent liabilities at fair value, which were determined considering the expected cash outflow required to settle the obligation on the acquisition date.

2) BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

a) Statement of compliance

The individual financial statements (Company) and the consolidated financial statements (Consolidated) were prepared and are presented in accordance with the accounting practices adopted in Brazil, which comprise CVM rulings and Brazilian FASB (CPC) pronouncements, guidelines and interpretations issued by the FASB in compliance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

Telefônica Brasil S.A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

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b) Basis of preparation and presentation

The Company's financial statements for the years ended December 31, 2017 and 2016 are presented in thousands of reais (unless otherwise stated), which is the Company's functional currency and were prepared under the going concern assumption.

The accounting standards adopted in Brazil require the presentation of the Statement of Value Added ("SVA"), individual and consolidated, while IFRS does not require presentation. As a result, under IFRS standards, the SVA is being presented as supplementary information, without prejudice to the overall financial statements.

The Board of Directors authorized the issue of these individual and consolidated financial statements at the meeting held on February 16, 2018.

The financial statements were prepared on a historical cost basis (except where different criteria are required) and adjusted to reflect the valuation of assets and liabilities measured at fair value or considering the mark-to-market valuation when such valuations are required by IFRS.

These financial statements were prepared under various measurement bases used in accounting estimates. The accounting estimates involved in the preparation of these financial statements were based on objective and subjective factors, considering management's judgment for determining the adequate amounts to be recorded in the financial statements. Significant items subject to these estimates and assumptions include: selection of useful lives and recoverability of property, plant and equipment in operations, measurement of the recoverability of assets with indefinite useful lives, measurement of financial assets at fair value and under present value adjustment method, as well as non-financial assets acquired in a business combination, credit risk analysis in determining estimated impairment losses of trade accounts receivable, as well as the analysis of other risks in determining other provisions, including the provision for contingencies. The carrying amounts of assets and liabilities recognized, which represent hedged items at fair value, which, alternatively, would have been recorded at amortized cost, are adjusted to state the variations in fair values attributable to the hedged risks.

Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties inherent in their estimate process. The Company reviews its estimates at least on an annual basis.

For comparability with the individual financial statements (income statement, statements of comprehensive income, statements of value added and statements of cash flows) for years ended December 31, 2017 and 2016, the effects of acquisition of Terra Networks by TData occurred on July 3, 2017 (note 1.c.1).

The accounting policies adopted in the preparation of the consolidated financial statements for the year ended December 31, 2017 are consistent with those used in the preparation of the consolidated annual financial statements for the year ended December 31, 2016. The following amendments to standards published by the International Accounting Standards Board (IASB) come into force for annual periods beginning on or after January 1, 2017:

- Improvements to IFRS 2014-2016: The annual improvements projects provide a vehicle for making non-urgent but necessary amendments to IFRS, with the aim of removing inconsistencies and clarifying wording. The amendments related to IFRS 12 Disclosure of Interests in other Entities, aimed clarifying the scope of the standard, come into force for annual periods beginning on or after January 1, 2017, whereas the rest of the improvements come into force for annual periods beginning on or after January 1, 2018. The amendments related to IFRS 12 do not have an impact on the Company's consolidated financial statements since, as of December 31, 2017, the Company does not have participations that are classified as held for sale, as held for distribution or as discontinued operations.

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- Amendments to IAS 7. Disclosure Initiative: The amendments to IAS 7 require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows, such as the issue and repayments of loans, and non-cash changes, such as unpaid acquisitions, sales and exchange differences.
- Amendments to IAS 12. Recognition of Deferred Tax Assets for Unrealised Losses: The amendments clarify the requirements on recognition of deferred taxes when the tax base of an asset exceeds its fair value.

The Company considered these amendments in the preparation of the annual consolidated financial statements; however, did not generate a significant impact on its results or financial position.

On the date of preparation of these financial statements, the following IFRS amendments had been published; however, their application was not mandatory. The Company does not adopt early any pronouncement, interpretation or amendment that has been issued, before application is mandatory.

Standards and amendments		Mandatory application: annual periods beginning on or after
IFRS 9	Financial Instruments	1-Jan-18
IFRS15	Revenue from Contracts with Customers	1-Jan-18
Clarifications to IFRS 15	Revenue from Contracts with Customers, issued on April 12, 2016	1-Jan-18
Amendments to IFRS 2	Classification and Valuation of Share Based Transactions	1-Jan-18
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1-Jan-18
Amendments to IAS 40	Transfers of Investment Property	1-Jan-18
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1-Jan-18
Improvements to IFRS Standards	2014-2016 Cycle	1-Jan-18
Improvements to IFRS Standards	2015-2017 Cycle	1-Jan-19
IFRS 16	Leases	1-Jan-19
IFRIC23	Uncertainty over Income Tax Treatments	1-Jan-19

Amendments to IFRS 9	Prepayment Features with Negative Compensation	
Amendments to IAS 28	Long-term Interest in associates and Joint Ventures	1-Jan-19
IFRS 17	Insurance Contracts	1-Jan-21
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between na Investidor and its Associate or Joint Venture	Deferred Indefinitely

Based on the analyses made to date, the Company estimates that the adoption of many of these standards, amendments and interpretations will not have a significant impact on the consolidated financial statements in the initial period of adoption. However, for the following issued but not yet effective standards are expected to have a significant impact on the consolidated financial statements at the time of their adoption and prospectively.

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IFRS 15 Revenues from Contracts with Customers

IFRS 15 sets out the requirements for recognising revenue from contracts with customers. The new requirements are expected to affect the following aspects, among others:

- Under IFRS 15, for bundled packages that combine multiple wireline, wireless, data, internet or television goods or services, the total revenue will be allocated to each performance obligation based on their standalone selling prices in relation to the total consideration of the package and will be recognized when (or as) the obligation is satisfied, regardless of whether there are undelivered items. This differs from current accounting where the portion of the total consideration that is contingent upon delivery of undelivered elements is not allocated to the delivered elements. Consequently, when bundles include a discount on equipment, the adoption of these new requirements will result in an increase in revenues recognized from the sale of handsets and other equipment, generally recognized upon delivery to the end customer, in detriment of ongoing service revenue over subsequent periods. To the extent that the packages are marketed at a discount, the difference between the revenue from the sale of equipment and the consideration received from the customer upfront will be recognised as a *contract asset* on the statement of financial position.
- Under the current accounting policy, all expenses directly related with obtaining a contract (sales commissions and other third party acquisition costs) are expensed when incurred. However, IFRS 15 requires the recognition of an asset for those costs that are incremental to obtain a contract and that are expected to be recovered and its subsequent amortisation over the same period as the revenue associated with such asset. Similarly, certain contract fulfilment costs, which are currently expensed when incurred, will be deferred under IFRS 15 to the extent that they relate to performance obligations that are satisfied over time.
- The guidance in IFRS 15 for the distinction between agent and principal is based on the concept of “control” that may differ from the currently applied notion of transfer of “risks and rewards”. As a result, with the adoption of IFRS 15, the Company will record revenue from the sale of handsets to dealers at the time of delivery and not at the time of sale to the final customer.
- Compared to the current revenue standard, IFRS 15 sets out more detailed requirements on how to account for contract modifications. Certain changes must be accounted for as a retrospective change (i.e. as a continuation of the original contract), while other modifications must be accounted for prospectively as separate contracts, like the end of the original contract and the creation of a new one.

In addition to this, IFRS 15 allows for two transition methods, namely the full retrospective method and the modified retrospective method with the cumulative effect from initial application recognised as an adjustment to the opening balance of retained earnings at the date of initial application. The Company will

adopt the latter and prior-year comparatives will not be restated; instead, the Company will disclose the nature and amount of the changes in items in the statement of financial position and the income statement as a result of applying IFRS 15 for the first time.

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It is also possible to elect to apply certain practical expedients to facilitate the application of the new criteria. The Company has evaluated which of them will be adopted in the implementation of the standard with the objective of reducing the complexity in its application. The main practical expedients that the Company will adopt are:

- **Completed contracts:** the Company will not apply the standard retrospectively to those contracts that are completed at January 1, 2018.
- **Portfolio approach:** the Company will apply the requirements of the standard to groups of contracts with similar characteristics, since, for the clusters identified, the effects do not differ significantly from an application on a contract by contract basis.
- **Financial component:** it will not be considered significant when the period between the moment when the promised good or service is transferred to a customer and the moment when the customer pays for that good or service is one year or less.
- **Costs to obtain a contract:** these costs will be recognised as an expense when incurred if the amortisation period of the asset that the entity would otherwise recognise is one year or less.

The process of implementing the new requirements involves the introduction of modifications to the current information systems, the implementation of new IT tools, and changes in the processes and controls of the entire revenue cycle in the Company. This process of implementation in the Company entails a high degree of complexity due to factors such as a large number of contracts, numerous data source systems, as well as the need to make complex estimates.

From the analysis performed on the transactions of the last financial year considering commercial offers as well as the volume of contracts affected, the Company estimates that the adoption of the new revenue recognition requirements on its equity is expected to result in an increase in retained earnings of 156 million reais before deferred taxes, being the most significant impacts due to the changes introduced by IFRS 15 relating to the first-time recognition of contract assets that, under IFRS 15, lead to the earlier recognition of revenue from the sale of goods, and the activation and deferral of the incremental costs related to the obtaining contracts and contract fulfilment costs that, under IFRS 15, result in the later recognition of customer acquisition costs and other selling expenses.

As the accounting effects of the transition to the new standard will be recognized directly in equity, the effects on profit or loss in 2018 will be related to changes in the point in time at which revenue and expenses are realized. The Company expects a shift from revenues from the provision of services to revenues from the sale of goods, by between 0.3 and 0.7 percentage points on the assumption that there are no significant changes to business models or products offered.

IFRS 9 Financial Instruments

IFRS 9 is applicable to financial assets and financial liabilities. As a result of the analysis of the effects of the new requirements introduced by this standard certain expected impacts have been identified in relation with to the following aspects, among others:

- IFRS 9 simplifies the current measurement model for financial assets and establishes three main categories: amortised cost, fair value through profit or loss and fair value through Other Comprehensive Income (OCI), depending on the business model and the characteristics of the contractual cash flows. Regarding recognition and measurement of financial liabilities there are not significant changes from current criteria except for the recognition of changes in own credit risk in OCI for those liabilities designated at fair value through profit or loss.

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- IFRS 9 introduces a new model for impairment losses on financial assets, i.e. the expected credit loss model, which replaces the current incurred loss model. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables. Consequently, the application of the new requirements will probably lead to an acceleration in the recognition of impairment losses on its financial assets, mainly trade receivables.
- Under current accounting, a hedge must be highly effective both, prospective and retrospectively, while IFRS 9 introduces a new, less restrictive, accounting model for hedging, requiring an economic relationship between the hedged item and the hedging instrument and that the coverage ratio be the same as that applied by the entity for its risk management. Likewise, the new standard modifies the criteria for documentation of hedging relationships.
- In addition to this, the Company's financial statements will include more detailed disclosures with relevant information regarding financial assets and liabilities.

As a result of the analysis of the new standard, the Company expects that the key changes will relate to documentation of policies and hedging strategies, as well as the estimation and timing of recognition of expected losses on receivables from customers. The Company has decided to apply the option that allows not to restate comparative periods to be presented in the year of initial application.

Based on the analysis performed to date, the Company estimates that the new impairment requirements is expected to result upon initial adoption in a decrease of 354 million reais in retained earnings, before deferred taxes, as a result of the increase in the bad debt provision balance on receivables from customers recognised under IAS 39.

IFRS 16 Leases

IFRS 16 requires lessees to recognise assets and liabilities arising from all leases (except for short-term leases and leases of low-value assets) in the statement of financial position.

The Company acts as a lessee on a very significant number of lease agreements over different assets, such as third-party towers, circuits, office buildings and stores and land where the towers are located, mainly. A significant portion of these contracts is accounted for as operating lease under the current lease standard, with lease payments being recognised generally on a straight-line basis over the contract term.

The Company is currently in the process of estimating the impact of this new standard on such contracts. This analysis includes the estimation of the lease term, based on the non-cancellable period and the periods covered by options to extend the lease, when the exercise depends only on Telefônica and where such exercise is reasonably certain. This will depend, to a large extent, on the specific facts and circumstances by class of assets in the telecom industry (technology, regulation, competition, business model, among others). In addition to this, the Company will make assumptions to calculate the discount

rate, which will mainly be based on the incremental borrowing rate of interest for the estimated term. On the other hand, the Company is considering not to separately recognise non-lease components from lease components for those classes of assets in which non-lease components are not material with respect to the total value of the lease.

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In addition to the mentioned estimations, the standard allows for two transition methods: retrospectively for all periods presented, or using a modified retrospective approach where the cumulative effect of adoption is recognised at the date of initial application. The Company has tentatively decided to adopt the latter transition method; therefore the Company would recognise the cumulative effect of initial application as an adjustment to retained earnings in the year of initial application of IFRS 16. Also, certain practical expedients are available on first-time application in connection with the right of use asset measurement, discount rates, impairment, leases that finish within the twelve months subsequent to the date of first application, initial direct costs, and term of the lease. The Company is evaluating which of these practical expedients will be adopted. In this regard, the Company is considering opting for the practical expedient that allows not reassessing whether a contract is or contains a lease on the date of initial application of IFRS 16 but to directly apply the new requirements to all those contracts which under current accounting were identified as a lease.

Due to the different alternatives available, together with the complexity of the estimations and the significant number of lease contracts, the Company has not yet completed the implementation process, so at present it is not possible to make a reasonable estimation of the impact of initial application of the new requirements. However, based on the volume of contracts affected, as well as the magnitude of the future lease commitments, as disclosed in Note 32 herein, the Company expects that the changes introduced by IFRS 16 will have a significant impact on its financial statements from the date of adoption, including the recognition on the balance sheet of right of use assets and their corresponding lease obligations in connection with the majority of contracts that are classified as operating leases under the current lease standard. Also, amortization of the right of use assets and recognition of interest costs on the lease obligation on the statements of income will replace amounts recognised as lease expense under the current lease standard. Classification of lease payments in the statement of cash flows will also be affected by the requirements of the new lease standard. On the other side, the Company's Financial Statements will include broader disclosures with relevant information regarding lease contracts.

c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries at December 31, 2017 and 2016 (Note 11).

The Company held the following direct equity interests on the respective dates:

Investees	Type of investment	Equity interests	Country (Headquarters)
Telefônica Data S.A. ("TData") (1)	Wholly-owned subsidiary	100.00%	Brazil
POP Internet Ltda ("POP") (2)	Wholly-owned subsidiary	100.00%	Brazil
Aliança Atlântica Holding B.V. ("Aliança")	Jointly-controlled subsidiary	50.00%	Holland
Companhia AIX de Participações ("AIX")	Jointly-controlled subsidiary	50.00%	Brazil
Companhia ACT de Participações ("ACT")	Jointly-controlled subsidiary	50.00%	Brazil

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(1) TData is the wholly-owned parent of Terra Networks and Telefônica Transportes e Logística Ltda ("TGLog").

(2) POP is the wholly-owned parent of Innoweb Ltda ("Innoweb").

Interest held in subsidiaries or jointly-controlled entities is measured under the equity method in the individual financial statements. In the consolidated financial statements, investments and all asset and liability balances, revenues and expenses arising from transactions and interest held in subsidiaries are fully eliminated. Investments in jointly-controlled entities are measured under the equity method in the consolidated financial statements.

3) SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

a) Cash and cash equivalents

These are maintained in order to meet short-term cash commitments and not for investment or other purposes. The Company and subsidiaries consider cash equivalents a short-term investment readily convertible into a known amount of cash and subject to insignificant risk of change in value. Short-term investments are classified as cash-equivalent when redeemable within 90 days (Note 4).

b) Trade accounts receivable

These are evaluated by the value of the services provided in accordance with the contracted conditions, net of estimated impairment losses. These include the services provided to customers, which were still not billed until balance sheet date, as well as other trade accounts receivable related to the sale of cellphones, SIM cards, accessories, advertising and rent of IT equipment (TData's "Soluciona TI" product), (Note 5).

The estimated impairment losses are set up at amounts sufficient to cover any losses and mainly consider the expected default.

c) Inventories

These are evaluated and presented at lower of average acquisition cost and net realizable value, whichever is lower. These include cellphones, SIM cards, prepaid cards, accessories, consumption materials and maintenance. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to sell (Note 6).

Estimated impairment losses are set up for materials and devices considered obsolete or whose carrying amounts are in excess of those usually sold by the Company within a reasonable period of time.

d) Prepaid expenses

These are stated at amounts effectively disbursed referring to services contracted but not yet incurred. Prepaid expenses are allocated to the income statements to the extent that related services are rendered and economic benefits are obtained (Note 9).

e) Investments

Control is obtained when the Company is exposed or has the right to variable returns based on its involvement with the investee and has the capacity of affecting those returns through the power exercised over an investee.

The consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ends when the Company ceases to exercise said control. Assets, liabilities and results of a subsidiary acquired or sold during the year are included in the consolidated financial statements from the date on which the Company obtains control until the date on which the Company ceases to exercise control over the subsidiary.

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Joint control is the contractually agreed sharing of a control, only existing when decisions about relevant activities call for unanimous agreement by the parties sharing control.

Based on the equity method, investments are recorded in balance sheets at cost plus changes after the acquisition of the equity interest. The income statement reflects the portion of the results of operations of the investees.

When changes are directly recognized in the investees' equity, the Company will recognize its portion in variations occurred, and as record these variations in the statements of changes in equity and in the statements of comprehensive income, where applicable.

The financial statements of investees are prepared for the same reporting period of the Company. Whenever necessary, adjustments are made so that the accounting policies are in accordance with those adopted by the Company.

After the equity method is applied, the Company determines whether there is any need to recognize additional impairment of its investment in investees. At each closing date, the Company determines whether there is objective evidence of impairment of investment in the affiliate. If so, the Company calculates the recoverable amount as the difference between the recoverable value of the investees and their carrying amount, and recognizes the amount in the income statements.

When there is loss of significant influence over the investees, the Company evaluates and recognizes the investment, at that moment, at fair value. Any difference between the investees' carrying amount by the time it loses significant influence and the fair value of the remaining investment and revenue from sale is recognized in the income statements.

Foreign exchange variations in Aliança's equity (jointly-controlled entity) are recognized in the Company's equity in other comprehensive income ("Effects on conversion of investments abroad", Note 22).

f) Property, plant and equipment

Property, plant and equipment are stated at acquisition and/or construction cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the borrowing costs for long-term construction projects if the recognition criteria are met, and is stated net of ICMS (State VAT) credits, which were recorded as recoverable taxes.

Asset costs are capitalized until the asset becomes operational. Costs incurred after the asset becomes operational and that do not improve the functionality or extend the useful life of the asset are immediately recognized on the accrual basis. When significant parts of fixed assets are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation. Likewise, expenses that represent asset improvement (expanded installed capacity or useful life) are capitalized. All the other repair and maintenance costs are recognized in the income statement as incurred.

The present value of the expected cost for the decommissioning of property, plant and equipment items (towers and equipment on leased property) is capitalized at the cost of the respective asset matched against the provision for dismantling obligations (Note 18) and depreciated over the useful lives of the related assets, which do not exceed the lease term.

Depreciation is calculated by the straight-line method over the useful lives of assets at rates that take into account the estimated useful lives of assets based on technical analyses. The assets' residual values, useful lives and methods of depreciation are reviewed on a yearly basis, adjusted prospectively, if appropriate. Useful life in terms of depreciation rates, which is reviewed annually by the Company.

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Property, plant and equipment items are written off when sold or when no future economic benefit is expected from their use or sale. Any gains or losses arising from write-off of assets (measured as the difference between the net disposal proceeds and the net carrying amount of the asset) are recognized in the income statement in the year in which the asset is written off.

A brief description of the main property, plant and equipment items, Note 12 is as follows:

- Switching and transmission media equipment: Includes switching and control centers, gateway, platforms, base radio station, microcells, minicells, repeaters, antennas, radios, access networks, concentrators, cables, TV equipment and other switching and transmission media equipment.
- Terminal/modem equipment: Includes cellphones and modems (rent and free lease), CPCT, public telephones and other terminal equipment.
- Infrastructure: This includes buildings, elevators, central air conditioning equipment, towers, posts, containers, energy equipment, land piping, support and protectors, leasehold improvements, etc.
- Other fixed asset items: These include vehicles, repair and construction tools and instruments, telesupervision equipment, IT equipment, testing and measurement equipment, fixtures and other goods for general use.

g) Intangible assets

Intangible assets acquired separately are measured at cost upon their initial recognition. The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

After initial recognition, intangible assets are stated at acquisition and/or buildup cost, net of amortization and accumulated provision for impairment, where applicable. Intangible assets generated internally, excluding capitalized development costs, are not capitalized, and the expense is reflected in the income statement for the year in which it is incurred.

The useful lives of intangible assets are considered finite or indefinite.

- Intangible assets with finite useful lives are amortized over their economic useful lives under the straight-line method and are tested for impairment whenever there is any indication of impairment loss. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed on an annual basis.

Changes in the estimated useful life or the expected pattern of consumption of future economic benefits embodied in an asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the cost/expense category consistent with the function of the intangible assets.

- Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be justifiable. Otherwise, changes in useful life – from indefinite to finite - are carried out prospectively. Goodwill generated upon investment acquisition is treated as intangible assets with indefinite useful lives.

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Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in the income statement on disposal.

A brief description of the key intangible asset items with finite useful lives, Note 13, is as follows:

- Software: This includes licenses for software used in the Company's operating, commercial and administrative activities.
- Customer portfolio: This includes intangible assets acquired through business combination, recorded at fair value on the acquisition date.
- Trademarks: These include intangible assets acquired through business combination, recorded at fair value on the acquisition date.
- Licenses: These include concession and authorization licenses, acquired from ANATEL for provision of telecommunication services. These also include licenses from business combinations, recorded at fair value on the acquisition date.

h) Lease

The classification of an agreement as a commercial lease is based on substantive issues related to the use of an asset or specific assets, or even the right to use a given asset, on the initial date of its execution.

Finance lease agreements: By means of these agreements, the Company assumes substantially all risks and rewards relating to ownership of a leased item. These are capitalized at the lease inception at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Initial direct

costs incurred in the transaction are added to cost, where applicable. Payments of finance lease agreements are allocated to financial charges and reduction of finance lease liabilities in order to obtain the constant interest rate on the outstanding liability balance. Implicit interest recognized in liabilities is allocated to the income statement over the lease term using the effective interest rate method.

Leased assets are depreciated according to their estimated useful lives or the lease term, whichever is shorter.

The Company and TData are parties to the following finance lease agreements:

- As lessee: lease agreements for transmission equipment and media arising from a joint construction agreement with another telecomm operator, based on an optical network linked to the power transmission line, interconnecting the northern Brazilian cities to the Company's national backbone and lease of towers and rooftops (arising from sale and finance leaseback, for which the net carrying amount of the assets upon disposal remained unchanged, a liability was recognized at the present value of minimum lease payments and deferred income was recorded at the difference between the selling price and the mentioned present value. (Note 19).
- As lessor: Lease agreements for IT equipment (TData's "Soluciona TI" product) for which the Company recognizes revenue, upon inception, at the present value of lease payments matched against accounts receivable (Note 5).

The difference between the nominal amount of lease payments and recorded accounts receivable/payable are recognized as finance income/expenses using the effective interest method over the lease term.

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Operating lease: These are lease agreements where lessor holds a significant portion of risks and rewards, where effects are recognized in the income statements for the year over the contractual term.

i) Impairment of nonfinancial assets

The Company annually reviews the net carrying amount of assets in order to evaluate events or changes in economic, operating or technological circumstances that may indicate impairment losses. When such evidence is found, and net carrying amount exceeds recoverable amount, a provision for impairment is recorded so as to adjust the net carrying amount to the recoverable amount.

The recoverable amount of an asset or a Cash Generating Unit (“CGU”) is defined as the higher of value in use and net sales value.

Upon estimation of the value in use of an asset or cash-generating unit, estimated future cash flows are discounted at present value using a discount rate based on the cost of capital rate the Capital Asset Pricing Model (CAPM) before taxes, which reflects the weighted average cost of capital and specific risks of the asset or CGU.

Whenever possible, the net sale value is determined based on a firm sale agreement executed on an arm’s length basis between knowledgeable and willing parties, adjusted by expenses attributable to the sale of assets or, when there is no firm sale agreement, based on the market price of an active market, or on the latest transaction price involving similar assets.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine an asset's or CGU recoverable amount since the last impairment loss was recognized. Any reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

The following assets have specific characteristics for impairment testing:

- Goodwill: Goodwill is tested for impairment annually at the reporting date or before when circumstances indicate that the carrying amount may be impaired. Where the recoverable amount is lower than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.
- Intangible assets: Intangible assets with indefinite useful lives are tested for impairment annually at the reporting date either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying amount may be impaired.
- Determination of value in use: The key assumptions used to estimate value in use are: (i) revenues (projected considering the growth in customer base, growth in market revenue against GDP and the Company's share of this market); (ii) variable costs and expenses (projected in accordance with the dynamics of the customer base, and fixed costs are projected in line with the historical performance of the Company, as well as with revenue growth); and (iii) capital investments (estimated considering the technological infrastructure necessary to enable the provision of services).

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Key assumptions were based on the Company's historical performance and reasonable macroeconomic assumptions grounded on financial market projections, documented and approved by Company's management.

The impairment test of the Company and subsidiaries' fixed and intangible assets, including goodwill, did not result in recognition of impairment losses for the years ended December 31, 2017 and 2016, since their estimated recoverable amount is greater than the net carrying amount as of the estimation date.

j) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, recorded at fair value on the acquisition date, and the fair value of any noncontrolling interest in the acquiree.

For each business combination, the Company measures noncontrolling interests in the acquiree either at its fair value or on the basis of its proportional share in the identifiable net assets of the acquiree. Costs directly attributable to an acquisition are recorded as expenses, as incurred.

Upon acquiring a business, the Company assesses financial assets acquired and liabilities assumed so as to classify and allocate them in accordance with contractual terms, economic circumstances and relevant conditions on the acquisition date, including the segregation, by the acquiree, of embedded derivatives existing in host contracts in the acquiree.

In the event a business combination is conducted in stages, the ownership interest previously held in the acquiree's capital is reassessed at fair value on the date control is acquired, and any impacts are recognized in the income statement.

Any contingent portion to be transferred by the acquirer shall be recognized at fair value on the acquisition date. Subsequent changes in the fair value of the contingent portion to be considered as an asset or liability is recognized in the income statement. Contingent consideration on acquisition of a business that is not classified as equity is subsequently measured at fair value through profit or loss, whether or not included in the scope of IFRS 9 Financial Instruments.

Goodwill is initially measured as excess transferred payment amount in relation to acquired net assets (identifiable net assets acquired and liabilities assumed). If consideration is lower than fair value of acquired net assets, the difference must be recognized as gain in the income statement.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that CGU is disposed of, the goodwill associated with that operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is allocated based on the relative fair values of the disposed operation and the portion of the CGU retained.

k) Financial Instruments – Initial recognition and subsequent measurement

k.1) Financial assets

Initial recognition and measurement

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Financial assets are classified at initial recognition (when it becomes part of the instrument's contractual provisions), as: (i) fair value through profit or loss; (ii) loans and receivables; (iii) investments held to maturity; (iv) financial assets available for sale or (v) derivatives classified as effective hedge instruments, as applicable.

All financial assets are initially recognized at fair value, plus, in the case of investment that is not determined at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the financial asset.

The Company's consolidated financial assets include cash and cash equivalents, trade accounts receivable, short-term investments pledged as collateral and derivative financial instruments.

Subsequent measurement

Subsequent measurement of financial assets depends on their classification, as follows:

Financial assets at fair value through profit or loss: These include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss: (i) financial assets are classified as held for trading if acquired to be sold within short term. This category includes derivative financial instruments contracted by the Company which do not meet the hedge accounting criteria set out by the corresponding standard; and (ii) financial assets at fair value through profit or loss are stated in balance sheets at fair value with their corresponding gains or losses recognized in the income statements.

Loans and receivables: these refer to non-derivative financial assets with fixed or determinable payments, however not traded in an active market. After initial measurement, these financial assets are stated at amortized cost, using the effective interest method, less impairment, where applicable. Amortized cost is calculated taking into account any discount or "premium" on acquisition and fees or costs incurred.

Amortization by the effective interest method and impairment losses are included in the financial income line in the income statement, if applicable.

Financial assets available for sale: These are non-derivative financial assets not classified as: (i) loans and receivables; (ii) investments held to maturity; or (iii) financial assets at fair value through profit or loss. These financial assets include equity and debt instruments. Debt instruments in this category are those which are intended to be held for an indefinite period and can be sold to meet liquidity needs or in response to changes in market conditions.

After initial measurement, financial assets available for sale are measured at fair value, with unrealized gains and losses being recognized directly in other comprehensive income until such time as the investment is written off, except for impairment losses, interest calculated using the effective interest method and gains or losses due to exchange variations on monetary assets, which are recognized directly in the income statement for the year.

When the investment is written-off or when a loss is determined due to impairment, the cumulative gains or losses which were previously recognized in other comprehensive income should be recognized in the statement of income.

The fair value of financial assets available for sale denominated in foreign currency is measured in the foreign currency and translated at the spot exchange rate at financial statements date. Changes in fair value attributable to translation differences that result from a change in amortized cost of the asset are recognized in the income statement, and other variations are recognized directly in equity.

Derecognition

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A financial asset (or, whenever the case, a part of a financial asset, or a part of a group of similar financial assets) is derecognized when:

- The rights to receive the cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Company has transferred substantially all the risks and rewards of the asset, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

k.2) Impairment of financial assets

The Company and its subsidiaries evaluate, at the balance sheet date, if there is any objective evidence indicating that the financial asset or group of financial assets is not recoverable. A loss only exists if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset (a "loss event" occurred) and such event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reasonably estimated.

The carrying amount of an asset is reduced by a provision and the loss amount is recognized in the income statement. If, in a subsequent year, estimated impairment increases or decreases due to an event after impairment recognition, impairment loss previously recognized will be adjusted accordingly. Should a written-off asset be recovered in the future, such recovery is recognized in the income statement.

k.3) Financial liabilities

Initial recognition and measurement

Upon initial recognition, the Company's financial liabilities are classified in the following categories: financial liabilities measured at fair value through profit or loss and other financial liabilities.

Financial liabilities are initially recognized at fair value plus, in the case of loans and financing, transaction cost directly attributable thereto.

The Company's consolidated financial liabilities include trade accounts payable, loans and financing, debentures, finance lease agreements, contingent payments and derivative financial instruments.

Subsequent measurement

Measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss: These include financial liabilities designated upon initial recognition at fair value through profit or loss. This category also includes derivative financial instruments contracted which do not meet the hedge accounting criteria set out by the corresponding standard.

For the years ended December 31, 2017 and 2016, the Company and its subsidiaries did not record any financial liability at fair value through profit or loss upon initial recognition.

Loans and financing: After initial recognition, loans and financing subject to interest are subsequently measured at amortized cost, using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate amortization process.

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Derecognition

A financial liability is derecognized when the obligation has been revoked, cancelled or has expired.

When an existing financial liability is replaced by another of the same lender, and the terms of the instruments are substantially different, or when the terms of an existing debt instrument are substantially modified, this replacement or modification is treated as derecognition of the original liability and recognition of a new liability, and the difference in the corresponding carrying amounts is recognized in the income statement.

k.4) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liability will take place (i) in the principal market for the asset or liability; or (ii) in the absence of a principal market, in the most advantageous market for that asset or liability.

The Company and or its subsidiaries must have access to the principal (or most advantageous) market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing an asset or liability, assuming that market participants act in their best economic interests.

Fair value measurement of a non-financial asset takes into consideration the capacity of a market participant to generate economic benefits through the best use of the asset, or selling it to another market participant that would also make the best use of the asset.

The Company and subsidiaries use adequate valuation techniques in the circumstances and for which there is sufficient data to measure the fair value, maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

For assets and liabilities recurrently recognized in the financial statements, the Company determines whether there were transfers between the hierarchy levels, revaluating the classification (based on the lowest level input that is significant to the overall fair value measurement) at the end of each reporting period.

For the purposes of fair value disclosures, the Company and its subsidiaries determined classes of assets or liabilities based on the nature, characteristics and risks of those assets or liabilities and the fair value hierarchy level, as mentioned above.

k.5) Financial instruments - net

Financial assets and liabilities are presented net in the balance sheet if, and only if, there is a current enforceable legal right to offset the amounts recognized and if there is an intention to offset or realize the asset or settle the liability simultaneously.

l) Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments, such as currency and interest rate swaps or currency nondeliverable forward contracts to hedge against currency risks.

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Derivative financial instruments designated in hedge transactions are initially recognized at fair value on the date on which the derivative contract is entered into, and subsequently revalued also at fair value. Derivatives are presented as financial assets when the fair value of the instrument is positive and as financial liabilities when the fair value of the instrument is negative.

Any gains or losses resulting from changes in fair value of derivatives during the year are posted directly to the income statement, except for the effective portion of cash flow hedges, which is recognized directly in equity as other comprehensive income and subsequently reclassified to P&L when the hedged item affects P&L.

Inception initial recognition of a hedge relationship, the Company formally designate and documents the hedge relationship to which it wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk, the nature of unhedged risks, the prospective statement of hedge effectiveness and how the Company shall assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

For the purpose of hedge accounting, hedges are classified as cash flow hedges and fair value hedges.

I.1) Cash flow hedges

Cash flow hedges meeting the recording criteria are accounted for as follows: (i) the portion of gain or loss from the hedge instrument determined as effective hedge shall be recognized directly in equity (other comprehensive income), and (ii) the ineffective portion of gain or loss from the hedge instrument shall be recognized in the income statement.

When the Company's documented risk management strategy for any given hedge relationship excludes from the hedge effectiveness evaluation any particular component of gain or loss or the corresponding cash flows from the hedge instrument, that gain or loss component is recognized in financial income (expenses).

Amounts recorded in other comprehensive income are immediately transferred to the income statement when the hedged transaction affects P&L. When a hedged item is the cost of a non-financial asset or liability, amounts recorded in equity are transferred at the initial carrying amount of the non-financial assets and liabilities.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge fails to meet the hedge accounting criteria, any cumulative gain or loss previously recognized in other comprehensive income remains separately in equity until the forecast transaction occurs or the firm commitment is fulfilled.

The Company's contracts are classified as cash flow hedges when they provide protection against changes in cash flows that are attributable to a particular risk associated with a recognized liability that may affect the profit or loss and fair value when they provide protection against exposure to changes in the fair value of the identified part of certain liabilities that is attributable to a particular risk (exchange variation) and may affect the profit or loss.

I.2) Fair value hedges

Fair value hedges meeting the accounting criteria are accounted for as follows: (i) gain or loss from changes in fair value of a hedge instrument shall be recognized in the income statement as finance costs; and (ii) gain or loss from a hedged item attributable to the hedged risk shall adjust the recorded amount of the hedged item to be recognized in the income statement, as finance costs.

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For fair value hedges relating to items carried at amortized cost, any adjustment to carrying amount is amortized through profit or loss over the remaining term of the hedge using the effective interest method. The effective interest rate amortization may begin as soon as any adjustment exists and no later than the point that the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in the income statement.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

I.3) Classification between current and noncurrent

Derivative financial instruments are classified as current and noncurrent or segregated into short and long term portions based on an evaluation of the contractual cash flows.

When the Company maintains a derivative as economic hedge (and does not apply hedge accounting), for a period exceeding 12 months after balance sheet date, the derivative is classified as noncurrent (or segregated into current and noncurrent portions), in line with the classification of the corresponding item.

Derivative instruments that are designated as effective hedging instruments are classified consistently with the classification of the underlying hedged item.

The derivative instrument is segregated into current and noncurrent portions only when amounts can be reliably allocated.

m) Loans and financing

Loans and financing obtained are initially recognized at fair value, net of costs incurred to obtain them and subsequently measured at amortized cost (plus charges and pro rata interest), considering the effective interest rate of each operation.

These are classified as current, unless the Company has an unconditional right to settle the liability for at least 12 months after year end.

n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a period of time exceeding 18 months to prepare for its intended use or sale form part of the cost of that asset.

All other borrowing costs are recorded in the period they are incurred. Borrowing costs include interest and other costs incurred by an entity in connection with the borrowing of funds.

In 2017 and 2016, the Company did not capitalize amounts related to borrowing costs.

o) Interest on equity and dividends

o.1) Interest on equity

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Brazilian legislation allows companies to pay interest on equity, which is similar to payment of dividends; however, this is deductible for income tax calculation purposes. In order to comply with Brazilian tax legislation the Company and its subsidiaries provision, in its accounting records the amount due to match against the financial expenses account in the income statement for the year. For the presentation of these financial statements, that expense is reversed against a direct charge to equity, resulting in the same accounting treatment adopted for dividends. The distribution of interest on equity to shareholders is subject to withholding income tax at a 15% rate.

o.2) Dividends

Minimum mandatory dividends are stated in the balance sheet as legal obligations (provisions in current liabilities). Dividends in excess of such minimum amount, not yet approved in the Shareholders' Meeting, are recorded in equity as proposed additional dividends. After approval at the Shareholders' meeting, the dividends in excess of minimum mandatory are transferred to current liabilities, and classified as legal obligations.

p) Provisions

p.1) General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, when it is probable that economic benefits are required to settle the obligation and a reliable estimate of the value of the obligation can be made. Provisions are restated at the balance sheet date considering the likely amount of loss and the nature of each contingency.

Provisions for contingencies are presented at their gross amount, less the corresponding judicial deposits, and are classified as provisions for civil, labor, tax and regulatory contingencies.

Judicial deposits are classified as assets given that the conditions required for their net presentation with the provision do not exist.

p.2) Provisions for civil, labor, tax and regulatory legal claims

The Company is party to labor, tax, civil and regulatory administrative and legal proceedings and set up a provision for contingencies whose likelihood of loss was estimated as probable. The assessment of the likelihood of loss includes an analysis of available evidence, the hierarchy of laws, available case law, the latest court decisions law and their relevance in the legal system, as well as the opinion of outside legal counsel. Provisions are reviewed and adjusted considering changes in existing circumstances, such as the applicable statute of limitations, tax audit conclusions, or additional exposures identified based on new matters or court decisions.

p.3) Provision for decommissioning of assets

This refers to costs to be incurred due to returning sites to owners (locations intended for tower and equipment installation on leased property) in the same condition as these were found at the time of execution of the initial lease agreement.

These costs are provisioned at the present value of amounts expected to settle the obligation using estimated cash flows and are recognized as part of the cost of the corresponding asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to decommissioning of assets. The financial effect of the discount is recorded as incurred and recognized in the income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to, or deducted from, the cost of the asset.

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p.4) Contingent liabilities recognized in a business combination

A contingent liability recognized in business combination is initially measured at fair value.

q) Taxes

q.1) Current taxes

Current tax assets and liabilities for the current and prior years are measured at the estimated amount recoverable from, or payable to, the tax authorities. The tax rates and laws used in calculating the amounts referred to above are those in effect, or substantially in effect, at year end. In the balance sheet, current taxes are presented net of prepayments over the year.

Current income and social contribution taxes related to items directly recognized in equity are also recognized in equity. Management regularly assesses the tax position in circumstances in which tax regulation requires interpretation, and sets up provisions therefor when appropriate.

q.2) Deferred taxes

Deferred taxes arise from temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amount.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and losses, to the extent that taxable profit is likely to be available for realization of deductible temporary differences, and unused tax credits and losses are likely to be used, except: (i) when the deferred tax asset related to

the deductible temporary difference arises from initial recognition of an asset or liability in a transaction other than a business combination and does not impact, at the transaction date, the book profit, income or loss for tax purposes; and (ii) on deductible temporary differences related to investments in subsidiaries, where deferred tax assets are recognized only to the extent that it is probable that temporary differences will be reversed in the near future and taxable profit is likely to be available so that temporary differences can be used.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit shall be available to allow all or part of the deferred tax asset to be used. Derecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized on all temporary tax differences, except: (i) when the deferred tax liability arises from initial recognition of goodwill, or an asset or liability in a transaction other than a business combination, and does not affect book profit or taxable profit or tax losses on the transaction date; and (ii) on temporary tax differences related to investments in subsidiaries, in which the temporary difference reversal period can be controlled and temporary differences are not likely to be reversed in the near future.

Deferred tax assets and liabilities are measured at the tax rate expected to be applicable for the year the asset will be realized or the liability will be settled, based on the rates provided in tax legislation and that were published as of year-end.

Deferred tax assets and liabilities are not discounted to present value and are classified in the balance sheet as noncurrent, irrespective of their expected realization.

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The tax effects of items recorded directly in equity are also recognized in equity. Deferred tax items are recognized based on the transaction which gave rise to that deferred tax, in comprehensive income or directly in equity.

Deferred tax assets and liabilities are presented net when there is a legal or constructive right to offset a tax asset against a tax liability and deferred taxes relate to the same taxpaying entity and are subject to the same tax authority.

q.3) Sales taxes

Revenues are recognized net of value added taxes, which from services rendered is subject to State Value-Added Tax (ICMS) or Service Tax (ISS) at the rates in force in each region as well as and to Social Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Social Contribution Tax on Gross Revenue for Social Security Financing (COFINS) taxation on a cumulative basis for revenue from telecommunication services.

Other revenue earned by the Company, including revenue from resale of goods, on a noncumulative basis, is taxed at for PIS, COFINS and by ICMS at the rates in force in each State.

Prepayments or recoverable amounts are stated in current or noncurrent assets, based on their estimated realization.

r) Other assets and liabilities

Assets are recognized in the balance sheet when it is likely that their future economic benefits will flow to the Company, and their cost or value can be reliably measured.

A liability is recognized in the balance sheet when the Company or its subsidiaries have a legal or constructive obligation as a result of a past event, the settlement of which is likely to generate an outflow of economic benefits.

Assets and liabilities are presented in the balance sheet classified as current or noncurrent.

An asset is classified as current when: (i) it is expected to be realized or is intended to be sold or used in the ordinary operational cycle; (ii) it is mainly held for trading purposes; (iii) it is expected to be realized within 12 months from the reporting period; or (iv) cash and cash equivalents, unless there are restrictions upon exchange thereof, i.e., when used to settle a liability within 12 months from the reporting period. All other assets are classified as noncurrent.

A liability is classified as current when: (i) it is expected to be settled in the ordinary operational cycle; (ii) it is mainly held for trading purposes; (iii) It is expected to be settled within 12 months from the reporting period; or (iv) there is no unconditional right to defer settlement of the liability within 12 months from the reporting period. All other liabilities are classified as noncurrent.

s) Present value adjustment of assets and liabilities

Current and noncurrent monetary assets and liabilities are adjusted to their present value when the effect on the overall financial statements is considered significant. The present value adjustment is calculated using contractual cash flows and the explicit, and sometimes implicit, interest rates of the respective assets and liabilities.

Accordingly, the interest rate embedded in revenues, expenses and related costs is discounted, so that these assets and liabilities are recognized on an accrual basis. This interest is subsequently reallocated to financial income and expenses in P&L through use of the effective interest method in relation to contractual cash flows. Implicit interest rates were determined based on assumptions, and accounting estimates are considered.

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t) Government grants and assistance

Government grants are recognized when there is reasonable certainty that the benefit will be received and that all the related conditions will be met. When the benefit refers to an expense item, it is recognized as revenue along the benefit period, on a systematic basis in relation to the costs the benefit it intends to offset.

When the Company receives non-monetary grants, the asset and the benefit are recorded at nominal amounts and reflected in the income statements over the expected useful life of the asset by equal annual installments. A loan or assistance is initially recognized or measured at fair value. A government grant is measured as the difference between the initial carrying amount of the loan and proceeds therefrom. A loan is subsequently measured in accordance with the applicable accounting policy.

When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as an additional government grant.

The financing lines with the Brazilian Development Bank (BNDES), with interest rates not exceeding those prevailing in the market, are classified under the scope of IAS 20/CPC 7, and are recorded at fair value based on market rates. Adjustment arising from the comparison of the amount measured based on the rate agreed upon is accounted for as deferred revenue (Note 19).

u) Revenue recognition

Revenues substantially correspond to value of considerations received or receivable arising from the provision of telecommunications or communications services, the sale of goods, advertising and other revenue, and are stated net of taxes, discounts or returns (in case of sale of goods) thereon. Revenues and expenses are stated on the accrual basis of accounting.

Revenue is recognized when it is probable that future economic benefits will flow to the Company or its subsidiaries, when it can be reliably measured, costs incurred in the transaction can be measured, the risks and rewards have been substantially transferred to the buyer and when specific criteria have been met for each of the Company's activities.

Consolidated revenues of the Company comprise basically telecommunication services regarding voice, data and digital services, broadband, TV and additional telecommunication services that are offered to customers through fixed-price traffic packs (paid on a monthly basis) or based on customers' consumption, remuneration for network usage, advertising and sale of goods.

u.1) Recognition of revenues from telecommunication services

Revenues from telecommunication, data and digital services, broadband services provided are recorded on an accrual basis based on the amounts agreed upon. Local and long-distance calls are billed by the measurement process under legislation in force. The services billed on fixed monthly amounts are calculated and accounted for on a straight-line basis. Unbilled revenues from the last billing up to the balance sheet date are recognized in the month in which the service is provided.

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Revenues related to sale of public phone cards and pay-as-you-go credit for cellphones as well as the respective taxes are deferred and recognized in the income statement to the extent that the services are effectively rendered.

Revenues from equipment lease contracts classified as finance lease agreement (TData's Soluciona TI product) are recognized on installation of equipment whereupon effective transfer of risk takes place. Revenue is recognized at present value of future minimum payments provided for in the agreement.

Revenues from services are basically subject to the following indirect taxes: ICMS or ISS (as applicable), PIS and COFINS.

u.2) Recognition of revenue and cost from sales of goods

Revenues and cost of sales (mobile phones, simcards and accessories) are recorded when risks and rewards inherent in such goods are transferred to buyers.

Sales made in own stores are recognized upon sale to end consumer. Revenues and costs of sales made by accredited dealers are deferred and recognized in P&L when the device is activated, limited to 90 days from the sale date.

u.3) Customer loyalty program

The Company has a loyalty points program that enables customers to accumulate points when they pay bills regarding the usage of the services offered. The accumulated points may be exchanged for telephone sets or services, conditional upon obtaining a minimum balance of points by customer. The consideration received is allocated to the cost of sets or services at fair value. The fair value of points is determined by dividing the amount of discount granted by the number of points necessary for the redemption based on the

points program. The portion of revenue related to the fair value of the accumulated balance of points generated is deferred and recognized as revenue upon redemption of points.

The number of points to be accounted for is determined through statistical techniques that consider assumptions and historical data on expected redemption rates, expiration percentages and cancellation of points, among other factors. These estimates are subject to variations and uncertainties due to changes in the behavior of customer redemptions.

u.4) Membership fee and promotional campaigns

Participation fees paid for promotional campaigns by customers of the Company are deferred and recorded in P&L throughout the duration of such campaign.

u.5) Agreements combining more than one element

Commercial packages offered by the Company that combine different elements are analyzed to determine whether it is necessary to separate the different elements identified, adopting the recognition criterion that is most adequate to each situation. Total revenue generated by the package sale is distributed among its elements, based upon their respective fair values.

The fair value determination of each element then identified implies the need for complex estimates given the nature of the business. A possible change in fair values estimates could affect the distribution of revenues between components and consequently the deferred revenue.

u.6) Advertising

Revenues from advertising are recognized in income during the advertising period.

v) Financial income (expenses)

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These include interest, and monetary and exchange variations arising from short-term investments, derivative transactions, loans, financing, debentures, present value adjustments of transactions that generate monetary assets and liabilities and other financial transactions. These are recognized on an accrual basis when earned or incurred by the Company.

For all financial instruments measured at amortized cost and interest-yielding financial assets classified as available for sale, interest income or expense is recognized using the effective interest method, which exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

w) Post-retirement benefit plans

The Company and its subsidiaries individually sponsor pension funds of post-retirement benefits for active and retired employees, in addition to a multisponsor supplementary retirement plan and health care plan for former employees. Contributions are determined on an actuarial basis and recorded on an accrual basis. Liabilities relating to defined benefit plans are determined based on actuarial evaluations at each year end, in order to ensure that sufficient reserves have been set up for both current and future commitments.

Actuarial liabilities related to defined benefit plans were calculated using the projected unit credit method. Actuarial gains and losses are recognized immediately in equity (in other comprehensive income).

For plans with defined contribution characteristics, the obligation is limited to the contributions payable, which are recognized in the P&L in the respective accrual periods.

The asset or liability related to defined benefit plan to be recognized in financial statements corresponds to the present value of the obligation for the defined benefit (using a discount rate based on long-term

National Treasury Notes “NTNs”), less fair value of plan assets that will be used to settle the obligations. Plan assets are assets held by a privately-held supplementary pension plan entity. Plan assets are not available to the Company’s creditors or those of its subsidiaries and cannot be paid directly to the Company or its subsidiaries. The fair value is based on information on market prices and, in case of securities quoted, on purchase price disclosed. The value of any defined benefit asset then recognized is limited to the present value of any economic benefits available as a reduction in future plan contribution from the Company.

Actuarial costs recognized in the income statement are limited to the service cost and cost of interest on the defined benefit plan obligation. Any changes in the measurement of plan assets and obligations are initially recognized in other comprehensive income, and immediately reclassified to retained earnings in P&L.

The Company manages and individually sponsors a health care plan for retired employees and former employees with fixed contributions to the plan, in accordance with Law No. 9656/98 (which provides for private health care and health insurance plans). As provided for in articles 30 and 31 of said law, participants shall have the right to the health care plan in which they participated while they were active employees.

x) Significant accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and adopt assumptions supported by valuation bases used in accounting estimates. The accounting estimates involved in the preparation of these financial statements were based on objective and subjective factors, considering management’s judgment for determining the adequate amounts to be recorded in the financial statements.

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Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties inherent in their estimate process.

Significant assumptions concerning sources of uncertainty in future estimates and other significant sources of estimation uncertainty at the balance sheet date, involving a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are as follows:

x.1) Impairment of non-financial assets

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use. The calculation of fair value less cost to sell is based on information available on transactions for sale of similar assets or market prices less additional costs to dispose of the asset. The calculation of value in use is based on the discounted cash flow model. The recoverable amount is sensitive to the discount rate used in the discounted cash flow method, as well as expected future cash receipts and growth rate used for extrapolation purposes.

The Company regularly analyzes the performance of the defined cash generating unit in order to identify any impairment of goodwill and its other assets. Determination of the recoverable amount of the cash generating unit to which goodwill is attributed includes use of assumptions and estimates and requires use of significant accounting judgment and criterion.

x.2) Post-retirement benefit plans

The cost of pension plans with defined benefits and other post-employment health care benefits and the present value of the pension obligation are determined using actuarial valuation methods. Actuarial valuation involves use of assumptions about discount rates, future salary increases, mortality rates and future increases in pension and annuity benefits. The obligation for defined benefits is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis.

The mortality rate is based on publicly available mortality tables in the country. Future salary increases and pension increases are based on expected future inflation rates for the country.

x.3) Fair value of financial instruments

When the fair value of financial assets and liabilities stated in the balance sheet cannot be obtained in active markets, it will be determined using valuation techniques, including the discounted cash flow method. Data for these methods is based on those adopted in the market, whenever possible. However, when this is not feasible, a certain level of judgment is required for fair value determination. Judgment includes consideration of the inputs used, such as liquidity risk, credit risk and volatility. Changes in the assumptions about these factors could affect the reported fair value of financial instruments.

x.4) Property, plant and equipment and finite-lived intangible assets

The accounting treatment of investment in fixed and intangible assets includes estimating useful life period for depreciation purposes and the fair value at the date of acquisition, particularly for assets acquired in business combinations.

Useful life determination requires estimates regarding the expected technological developments and alternative uses of assets. The hypotheses related to the technological aspect and its future development imply a significant level of analysis, considering the difficulties in forecasting time and nature of future technological changes.

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x.5) Revenue recognition – Customer Loyalty Program

The Company estimates the fair value of points attributed under the customer loyalty program by applying statistic techniques. Inputs for the model include assumptions about expected redemption rates, the mix of products that will be available for future redemption and customers' preference in relation to points use. Since issued points do not expire, these estimates are subject to significant uncertainties.

x.6) Agreements combining more than one element

The fair value determination of each element in a multiple element agreement requires complex estimates given the nature of the business. A possible change in fair value estimates could affect the distribution of revenues between components and consequently the deferred revenues.

x.7) Taxes

There are uncertainties regarding the interpretation of complex tax regulations and the amount and timing of future taxable profits. The Company and its subsidiaries set up provisions, based on reasonable estimates, for the possible consequences of audits by tax authorities in respective jurisdictions in which they operate. The amount of these provisions is based on various factors, such as previous tax audit experience and different interpretations of tax regulations by the taxable entity and by the relevant tax authority. Such differences in interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Company or those of its subsidiaries.

The Company and its subsidiaries evaluate the recoverability of deferred tax assets based on estimates of future profits. This recoverability ultimately depends on the ability of the Company or its subsidiaries to generate taxable profits over the period in which the deferred tax asset is deductible. The analysis considers the reversal period of deferred tax liabilities, as well as estimates of taxable profits, based on updated internal projections reflecting the latest trends.

Determining the proper classification of the tax items depends on several factors, including an estimate of the period and the realization of the deferred tax asset and the expected date of payments of these taxes. The actual flow of receipt and payment of income tax could differ from estimates made by the Company and its subsidiaries, as a result of changes in tax laws or of unexpected future transactions that may impact tax balances.

x.8) Provisions for tax, labor, civil and regulatory proceedings

Provisions are recognized when the Company has a present obligation arising from a past event, settlement of which requires an outflow of resources rated as probable and when it can be reliably estimated. This obligation can be legal or constructive, derived from, among other factors, regulations, contracts, customary practices or public commitments that expose third parties to a valid expectation that the Company or its subsidiaries will assume certain responsibilities. The determination of the provision is based on the best estimate of the disbursement required to settle the corresponding obligation, considering the information available as of the closing date, including the opinion of independent experts, such as legal advisors.

x.9) Revenue recognition - revenue from unbilled services

The Company has billing systems for services with intermediate cut-off dates. Thus, at the end of each month there are revenues already received by the Company, but not effectively invoiced to its customers. These unbilled revenues are recorded based on estimates, which take into account historical consumption data, number of days elapsed since the last billing date, among others. Because historical data are used, these estimates are subject to significant uncertainties.

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(In thousands of reais, unless otherwise stated)

y) Functional and reporting currency

The Company's functional and reporting currency is the Brazilian real. Transactions in foreign currency were translated at the exchange rate in force as of the date the transaction. Assets and liabilities denominated in foreign currencies are translated using the exchange rate at the balance sheet date. The exchange rate variations arising from transactions in foreign currencies are recognized in P&L as financial income or expenses. Gains and losses on the translation of foreign investments are recognized in the statement of comprehensive income.

z) Translation of transactions denominated in foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency (real) at the exchange rate (fix rate) in force as of the transaction date and subsequently re-measured based on the fix rates effective that, at December 31, 2017, were US\$1.00 = R\$3.3080, €1.00 = R\$3.9676, and at December 31, 2016, were US\$1.00 = R\$3.2591, €1.00 = R\$3.4351. Gains and losses resulting from the translation of these assets and liabilities due to exchange rate variation between transaction date and period end are recognized in the income statement.

aa) Employee profit sharing

The Company and its subsidiaries have obligations arising from employment contracts, recognizing these provisions during the year. Provisions are recorded to recognize the expense regarding employee profit sharing. These provisions are calculated based on qualitative and quantitative goals set by management and accounted for in specific accounts according to their function in groups of: Cost of services, Selling expenses and General and administrative expenses.

ab) Share-based payments

The Company and its subsidiaries measure the cost of transactions settled with employees and officers based on shares issued by parent company (Telefónica), by reference to the fair value of the shares at the date at which they are granted, using the binomial valuation model. This fair value is charged to the income statement over the period until the vesting date.

ac) Treasury shares

Own equity instruments that are repurchased (treasury stock) are recognized at cost and deducted from equity. No gains or losses are recognized in P&L on purchase, sale, issue or cancellation of the Company's own equity instruments.

ad) Segment reporting

Business segments are defined as components of a company for which separate financial information is available and regularly assessed by the operational decision making professional in decisions on how to allocate funds to an individual segment and in the assessment of segment performance. Considering that: (i) all officers and managers' decisions are based on consolidated reports; (ii) the Company and subsidiaries' mission is to provide their customers with quality telecommunications services; and (iii) all decisions related to strategic planning, finance, purchases, short- and long-term investments are made consolidated on a consolidated basis, the Company and subsidiaries operate in a single operating segment, namely the provision of telecommunications services.

ae) Statement of cash flows and statement of value added

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The statement of cash flows was prepared in accordance with IAS 7/CPC 03 – Statement of Cash Flows using the indirect method, and reflects the changes in cash for the years reported.

The statement of value added (SVA) is shown as supplementary information, in compliance with Brazilian Corporation Law and was prepared in accordance with CPC09 – Statement of value added. The purpose of the statement of value added is to disclose the wealth generated by the Company during the year and the wealth distribution among its stakeholders.

4) CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Cash and banks	114,556	189,445	117,799	198,369
Short-term investments	3,566,617	4,486,182	3,932,539	4,906,741
Total	3,681,173	4,675,627	4,050,338	5,105,110

Highly liquid short-term investments basically comprise Bank Deposit Certificates (CDB) and Repurchase Agreements kept at first-tier financial institutions, pegged to the Interbank Deposit Certificate (CDI) rate, with original maturities of up to three months, and with immaterial risk of change in value. Revenues generated by these investments are recorded as financial income.

5) TRADE ACCOUNTS RECEIVABLE, NET

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Billed amounts	6,642,523	6,077,768	6,753,621	6,939,909
Unbilled amounts	2,137,645	1,898,630	2,481,364	1,930,708
Interconnection amounts	835,085	1,333,595	859,819	1,345,471
Amounts from related parties (Note 28)	175,201	177,741	201,021	190,906
Gross accounts receivable	9,790,454	9,487,734	10,295,825	10,406,994
Estimated impairment losses	(1,209,369)	(1,004,512)	(1,433,471)	(1,399,895)
Total	8,581,085	8,483,222	8,862,354	9,007,099
Current	8,413,403	8,282,685	8,588,466	8,701,688
Noncurrent	167,682	200,537	273,888	305,411

Consolidated balances of noncurrent trade accounts receivable include:

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- R\$122,651 at December 31, 2017 (R\$143,265 at December 31, 2016), relating to the business model of resale of goods to legal entities, receivable within 24 months. At December 31, 2017, the impact of the present-value adjustment was R\$16,011 (R\$32,920 at December 31, 2016).
- R\$45,031, at December 31, 2017 (R\$57,272, at December 31, 2016), net of the present value adjustment relating to the portion of accounts receivable arising from negotiations on the bankruptcy process of companies from the OI group. At December 31, 2017, the impact of the present-value adjustment was R\$15,535 (R\$10,268 at December 31, 2016).
- R\$106,206, at December 31, 2017, (R\$104,874, at December 31, 2016), relating to “Soluciona TI”, traded by TData, which consists of lease of IT equipment to small and medium companies and receipt of fixed installments over the contractual term. Considering the contractual terms, this product was classified as finance lease. At December 31, 2017, the impact of the present-value adjustment was R\$33,614 (R\$3,005 at December 31, 2016).

The balances of current and noncurrent trade accounts receivable, relating to finance lease of “Soluciona TI” product, comprise the following effects:

	Consolidated	
	12/31/17	12/31/16
Nominal amount receivable	434,743	611,384
Deferred financial income	(33,614)	(3,005)
Present value of accounts receivable	401,129	608,379
Estimated impairment losses	(154,666)	(344,738)
Net amount receivable	246,463	263,641

Current	140,257	158,767
Noncurrent	106,206	104,874

At December 31, 2017, the aging list of gross trade accounts receivable relating to “Soluciona TI” product is as follows:

	Consolidated	
	Nominal amount receivable	Present value of accounts receivable
Falling due within one year	229,981	229,981
Falling due between one year and five years	204,762	171,148
Total	434,743	401,129

There are no unsecured residual values resulting in benefits to the lessor nor contingent payments recognized as revenue for the year.

The aging list of trade accounts receivable, net of estimated impairment losses, is as follows:

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	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Falling due	6,557,992	6,392,442	6,635,125	6,841,752
Overdue – 1 to 30 days	1,016,172	1,025,630	1,132,008	1,073,568
Overdue – 31 to 60 days	342,779	309,210	375,176	322,485
Overdue – 61 to 90 days	224,597	225,132	232,648	227,010
Overdue – 91 to 120 days	96,586	110,813	105,342	105,048
Overdue – over 120 days	342,959	419,995	382,055	437,236
Total	8,581,085	8,483,222	8,862,354	9,007,099

At December 31, 2017 and 2016, no customer represented more than 10% of trade accounts receivable, net.

Changes in the estimated impairment losses for accounts receivable are as follows:

	Company	Consolidated
Balance at 12/31/15	(1,650,112)	(2,217,926)
Supplement to estimated losses (Note 24)	(1,667,359)	(1,843,775)
Reversal of estimated losses (Note 24)	441,617	495,554
Write-off due to use Merger (Note 1.c.2)	2,032,062	2,166,252
		-

	(160,720)	
Balance at 12/31/16	(1,004,512)	(1,399,895)
Supplement to estimated losses (Note 24)	(1,870,438)	(1,994,769)
Reversal of estimated losses (Note 24)	465,353	513,754
Write-off due to use	1,200,228	1,456,158
Business combinations (Note 1.c.1)	-	(8,719)
Balance at 12/31/17	(1,209,369)	(1,433,471)

6) INVENTORIES

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Materials for resale (1)	302,235	335,281	325,850	377,465
Materials for consumption	55,448	75,086	57,740	77,732
Other inventories	7,822	7,892	7,822	7,892
Gross total	365,505	418,259	391,412	463,089
Estimated losses from impairment or obsolescence (2)	(40,794)	(50,108)	(42,657)	(52,676)
Total	324,711	368,151	348,755	410,413

(1) This includes, among others, mobile phones, simcards (chip) and IT equipment in stock.

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(2) Additions and reversals of estimated impairment losses and inventory obsolescence are included in cost of goods sold (Note 24).

7) DEFERRED TAXES AND TAXES RECOVERABLE**a) Taxes recoverable**

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
State VAT (ICMS) (1)	2,438,272	2,317,739	2,450,856	2,329,159
Income and social contribution taxes recoverable (2)	401,259	829,160	505,535	830,549
Withholding taxes and contributions (3)	212,264	131,915	238,355	157,371
PIS and COFINS	66,335	125,273	85,098	148,759
Fistel, INSS, ISS and other taxes	8,232	22,775	27,431	38,236
Total	3,126,362	3,426,862	3,307,275	3,504,074
Current	2,386,258	2,952,622	2,563,990	3,027,230
Noncurrent	740,104	474,240	743,285	476,844

(1) This includes credits of ICMS arising from the acquisition of property and equipment (subject to offsetting in 48 months); requests for refund of ICMS, which was paid under invoices that were cancelled subsequently; for the rendering of services; tax substitution; and tax rate difference; among others. Noncurrent consolidated amounts include credits arising from the acquisition of property and equipment of R\$423,588 and R\$370,770 on December 31, 2017 and 2016, respectively.

(2) This refers to prepayments of income and social contribution taxes, which will be offset against federal taxes to be determined in the future.

(3) This refers to credits on withholding income tax (IRRF) on short-term investments, interest on equity and others, which are used as deduction in operations for the period and social contribution tax withheld at source on services provided to public agencies.

b) Deferred taxes

Deferred income and social contribution tax assets are computed considering expected generation of taxable profit, which were based on a technical feasibility study, approved by the Board of Directors.

Significant components of deferred income and social contribution taxes are as follows:

Telefônica Brasil S.A.**NOTES TO FINANCIAL STATEMENTS**

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	Balances at 12/31/15	Income statement	Comprehensive income	Company Other	Merger (note 1 c.2)	Balances at 12/31/16	Income statement	Comprehens income
<u>Deferred tax assets (liabilities)</u>								
Income and social contribution taxes on tax losses (1)	-	1,376	-	-	-	1,376	587,374	
Income and social contribution taxes on temporary differences (2)	(155,951)	(716,769)	78,798	(1,516)	705,367	(90,071)	(1,264,191)	56,
Provisions for legal, labor, tax civil and regulatory contingencies	1,681,016	257,288	-	-	282,751	2,221,055	34,032	
Trade accounts payable and other provisions	535,001	6,702	-	-	66,455	608,158	(19,864)	
Customer portfolio and trademarks	256,056	(62,660)	-	-	119,695	313,091	(58,674)	
Estimated losses on impairment of accounts receivable	369,174	(82,284)	-	-	54,645	341,535	69,652	
Estimated losses from modems and other P&E items	170,132	(10,561)	-	-	122,696	282,267	(82,833)	
Pension plans and other	26,164	1,780	80,459	-	-	108,403	10,498	55,

post-employment benefits								
Profit sharing	88,944	31,004	-	-	3,963	123,911	(23,268)	
Provision for loyalty program	32,604	(13,492)	-	-	-	19,112	(1,991)	
Accelerated accounting depreciation	10,865	13,168	-	-	-	24,033	(15,773)	
Estimated impairment losses on inventories	9,364	(11,757)	-	-	13,620	11,227	(107)	
Derivative transactions	47,911	2,891	(1,633)	-	10,523	59,692	(34,349)	
Licenses	(1,204,226)	(216,330)	-	-	-	(1,420,556)	(216,330)	
Effects of goodwill generated in the merger of Vivo Part.	(809,600)	(54,720)	-	-	-	(864,320)	(5,461)	
Goodwill from Spanish and Navytree	(337,535)	-	-	-	-	(337,535)	-	
Goodwill from Vivo Part.	(837,918)	(167,202)	-	-	-	(1,005,120)	(167,203)	
Goodwill from GVT Part.	-	(522,228)	-	-	-	(522,228)	(696,305)	
Technological Innovation Law	(193,146)	52,206	-	-	-	(140,940)	43,407	
Income and social contribution taxes on other temporary differences (3)	(757)	59,426	(28)	(1,516)	31,019	88,144	(99,622)	(1
Total deferred tax assets (liabilities), noncurrent	(155,951)	(715,393)	78,798	(1,516)	705,367	(88,695)	(676,817)	56,
Deferred tax assets	3,535,671					4,425,658		
Deferred tax liabilities	(3,691,622)					(4,514,353)		
Deferred tax assets (liabilities), net	(155,951)					(88,695)		
Represented in the balance sheet as								

follows:

**Deferred tax
assets**
**Deferred tax
liabilities**

-	-
(155,951)	(88,695)

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Consolidated

	Balances at 12/31/15	Income statement	Comprehensive income	Other	Balances at 12/31/16	Income statement	Comprehensive income	comb (Not
<u>Deferred tax assets (liabilities)</u>								
Income and social contribution taxes on tax losses (1)	26,519	(12,448)	-	-	14,071	710,411	-	
Income and social contribution taxes on temporary differences (2)	685,071	(748,969)	78,840	(1,516)	13,426	(1,251,816)	58,192	
Provisions for legal, labor, tax civil and regulatory contingencies	1,954,236	276,100	-	-	2,230,336	68,399	-	
Trade accounts payable and other provisions	687,124	(10,001)	-	-	677,123	(25,706)	-	
Estimated losses on impairment of accounts receivable	447,018	(88,213)	-	-	358,805	76,155	-	
Customer portfolio and trademarks	343,107	(30,015)	-	-	313,092	(58,674)	-	
Estimated losses from modems and other P&E items	294,945	(10,268)	-	-	284,677	(83,736)	-	
Pension plans and other post-employment	26,285	1,633	80,501	-	108,419	8,630	57,485	

benefits							
Profit sharing	106,198	19,058	-	-	125,256	(15,210)	-
Provision for loyalty program	32,604	(13,492)	-	-	19,112	(1,991)	-
Accelerated accounting depreciation	10,865	13,168	-	-	24,033	(15,773)	-
Estimated impairment losses on inventories	10,707	1,392	-	-	12,099	(347)	-
Derivative transactions	59,408	2,358	(1,633)	-	60,133	(35,084)	822
Licenses	(1,204,226)	(216,330)	-	-	(1,420,556)	(216,330)	-
Effects of goodwill generated in the acquisition of Vivo Part.	(809,600)	(54,720)	-	-	(864,320)	(5,461)	-
Goodwill from Spanish and Navytree	(337,535)	-	-	-	(337,535)	-	-
Goodwill from Vivo Part.	(837,918)	(167,202)	-	-	(1,005,120)	(167,203)	-
Goodwill from GVTPart.	-	(522,228)	-	-	(522,228)	(696,305)	-
Technological Innovation Law	(193,146)	52,206	-	-	(140,940)	43,407	-
Income and social contribution taxes on other temporary differences (3)	94,999	(2,415)	(28)	(1,516)	91,040	(126,587)	(115)
Total deferred tax assets (liabilities), noncurrent	711,590	(761,417)	78,840	(1,516)	27,497	(541,405)	58,192
Deferred tax assets	4,153,054				4,541,952		
Deferred tax liabilities	(3,441,464)				(4,514,455)		
Deferred tax assets (liabilities), net	711,590				27,497		
Represented in the balance sheet as follows:							

; Deferred tax assets	711,590	27,497
; Deferred tax liabilities	-	-

(1) This refers to the amounts recorded which, in accordance with Brazilian tax legislation, may be offset to the limit of 30% of the tax bases computed for the following years, with no expiry date. In 2017, there were increases of R\$587,374 in the Company and R\$779,862 in the consolidated, consisting of R\$587,374 of the Company and R\$192,488 of Terra Networks and POP.

(2) This refers to amounts that will be realized upon payment of provisions, effective impairment losses for trade accounts receivable, or realization of inventories, as well as upon reversal of other provisions.

Telefônica Brasil S.A.**NOTES TO FINANCIAL STATEMENTS****Years ended December 31, 2017 and 2016****(In thousands of reais, unless otherwise stated)**

(3) These refer to deferred taxes arising from other temporary differences, such as deferred income, renewal of licenses burden, subsidy on the sale of mobile phones, among others.

At December 31, 2017, deferred tax credits (income and social contribution tax losses) were not recognized in indirect subsidiaries' (Innoweb and TGLog) accounting records, in the amount of R\$11,938 (R\$2,993 at December 31, 2016), as it is not probable that future taxable profits shall be available for these subsidiaries to benefit from such tax credits.

Expected realization of deferred taxes, net, noncurrent.

The amounts are based on projections subject to change in the future.

<u>Year</u>	Company	Consolidated
2018	1,768,735	1,904,953
2019	543,722	685,775
2020	332,851	374,379
2021	426,700	442,867
2022	694,083	704,303
2023 em diante	(4,475,416)	(4,450,194)
Total	(709,325)	(337,917)

8) JUDICIAL DEPOSITS AND GARNISHMENTS

In some situations, in connection with a legal requirement or to suspension of tax liability, judicial deposits are made to secure the continuance of the claims under discussion. These judicial deposits may be required for claims where the likelihood of loss was analyzed by the Company and its subsidiaries, grounded on the opinion of its legal advisors as a probable, possible or remote loss.

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Judicial deposits				
Tax	4,074,517	3,698,966	4,230,917	3,758,787
Labor	864,022	1,040,635	885,338	1,051,430
Civil	1,203,297	1,107,929	1,205,807	1,109,001
Regulatory	200,627	276,604	200,627	276,604
Total	6,342,463	6,124,134	6,522,689	6,195,822
Garnishments	137,823	152,948	141,116	155,744
Total	6,480,286	6,277,082	6,663,805	6,351,566
Current	324,465	302,349	324,638	302,424
Noncurrent	6,155,821	5,974,733	6,339,167	6,049,142

On December 31, 2017, the Company and its subsidiaries had a number of tax-related judicial deposits in the consolidated amount of R\$4,230,917 (R\$3,758,787 at December 31, 2016). In Note 18, we provide further details on issues arising from the most significant judicial deposits.

The table below presents the composition of the balances as of December 31, 2107 and 2016 of the tax judicial deposits (segregated and summarized by tribute).

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	Consolidated	
	12/31/17	12/31/16
Contribution to Empresa Brasil de Comunicação (EBC)	1,238,068	1,053,867
Telecommunications Inspection Fund (FISTEL)	1,161,061	1,095,789
Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL)	518,474	449,988
Universal Telecommunication Services Fund (FUST)	484,649	456,977
Social Contribution Tax for Intervention in the Economic Order (CIDE)	270,612	176,557
State Value-Added Tax (ICMS)	273,264	212,652
Social Security, work accident insurance (SAT) and funds to third parties (INSS)	134,688	128,458
Withholding Income Tax (IRRF)	45,846	73,848
Contribution tax on gross revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS)	37,965	35,570
Other taxes, charges and contributions	66,290	75,081
Total	4,230,917	3,758,787

A brief description of the main tax-related judicial deposits is as follows:

- Contribution to Empresa Brasil de Comunicação (EBC)

On behalf of its members, Sinditelebrasil (Union of Telephony, and Mobile and Personal Services) is challenging in court payment of the Contribution to Foster Public Radio Broadcasting to EBC, introduced by Law No. 11.652/2008. The Company and TData, as union members, made court deposits relating to that contribution.

- Telecommunications Inspection Fund (FISTEL)

The Company has legal proceedings involving the collection by ANATEL of the Installation Inspection Fee ("TFI") on the renewal of the validity of the license, as well as the exclusion of the calculation basis of the

Installation Inspection Fee ("TFI") and Inspection and Operation Fee ("TFF") of mobile stations that do not belong to it.

9) PREPAID EXPENSES

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Advertising and publicity	335,700	258,212	336,295	258,212
Insurance	36,672	39,008	36,941	39,558
Rental	29,713	19,276	29,713	19,276
Software and networks maintenance	7,422	10,204	12,375	12,283
Taxes, financial charges, personal and other	37,475	45,148	54,231	50,193
Total	446,982	371,848	469,555	379,522
Current	425,298	336,508	446,439	343,092
Noncurrent	21,684	35,340	23,116	36,430

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NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

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10) OTHER ASSETS

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Advances to employees and suppliers	53,103	81,325	58,456	83,634
Related-party receivables (Note 28)	557,211	311,633	166,733	250,679
Receivables from suppliers	114,015	96,065	114,015	99,166
Subsidy on handset sales	37,258	30,491	37,258	30,491
Surplus from post-employment benefit plans (Note 30)	9,616	8,838	9,833	9,041
Other amounts receivable	17,024	20,391	24,037	22,649
Total	788,227	548,743	410,332	495,660
Current	701,882	495,380	321,397	440,095
Noncurrent	86,345	53,363	88,935	55,565

11) INVESTMENTS

a) Information on investees

The Company holds equity interests in wholly-owned subsidiaries (subsidiaries) and jointly-owned subsidiaries. Below, we present the main information of the Company's investees.

TData: The Company's wholly-owned subsidiary, headquartered in Brazil, has the purpose of providing and operating value-added services (VAS); integrated business solutions in telecommunications and related activities; technical assistance and maintenance of telecommunications equipment and networks and project design.

TData is the parent company of TGLog (acquired on October 28, 2015 for R\$15,811) and Terra Networks (acquired on July 3, 2017 for R\$250,000).

GVTPart: A wholly-owned subsidiary of the Company up to March 31, 2016. GVTPart. was controlling shareholder of GVT and headquartered in Brazil, the business purpose of GVTPart is to hold interest in other domestic or foreign companies as a partner, shareholder or member. GVT provides landline telephone, data, multimedia communication and pay-tv services in the entire Brazilian territory. GVTPart. was merged into the Company on April 1, 2016 (Note 1c2).

POP: The Company's direct subsidiary on April 1, 2016 (Note 1c2), is engaged in the performance of activities related to information technology, internet and any other networks; hosting services and the commercial operation of websites and portals; handling, provision and storage of information and data; sale of software, hardware, telecommunication equipment and electronics; development, licensing and maintenance of information systems and routines; development of electronic commerce; creation and administration of own and/or third-party databases; sale of publicity and advertising and, banner vehicles; and holding interest in other companies as member or shareholder, and may also form consortia and/or other forms of association. Until March 31, 2016, POP was controlled by GVT (Note 1c2).

POP is the wholly-owned subsidiary of Innoweb Ltda ("Innoweb"), whose business purpose is to operate as an internet provider; performing information activities; all forms of telecommunications activities, including the transmission of voice, data and information; sale of telecommunications and electronic equipment and/or accessories; and holding interest in other companies as member or shareholder, and may also form consortia and/or other forms of association.

Aliança: Jointly-controlled subsidiary, headquartered in Amsterdam, Netherlands, with 50% interest held by the Company, this entity is engaged in the acquisition and management of subsidiaries, and holding interest in companies of the telecommunications industry.

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(In thousands of reais, unless otherwise stated)

AIX: Jointly-controlled subsidiary headquartered in Brazil, with 50% interest held by the Company, this entity is engaged in holding interest in Consórcio Refibra, and in performing activities related to the direct and indirect operation of activities associated with the construction, completion and operation of underground networks for optical fiber ducts.

ACT: Jointly-controlled subsidiary headquartered in Brazil, with 50% interest held by the Company, this entity is engaged in holding interest in Consórcio Refibra, and in performing activities related to the rendering of technical support services for the preparation of projects and completion of networks, by means of studies required to make them economically feasible, and monitor the progress of Consortium-related activities.

Below is a summary of significant financial data on the Company's investees:

	At 12/31/17					At 12/31/16				
	Consolidated wholly-owned subsidiaries		Jointly-controlled subsidiaries			Consolidated wholly-owned subsidiaries		Jointly-controlled subsidiaries		
	TData	POP	Aliança	Cia AIX	Cia ACT	TData	POP	Aliança	Cia AIX	Cia ACT
Equity interest	100.00%	100.00%	50.00%	50.00%	50.00%	100.00%	100.00%	50.00%	50.00%	50.00%
Summary of balance sheets:										
Current assets	2,928,721	33,566	167,540	22,431	17	1,414,039	27,407	145,121	20,337	15
	749,694	52,761	-	13,410	-	362,195	52,016	-	12,879	-

Noncurrent assets											
Total assets	3,678,415	86,327	167,540	35,841	17	1,776,234	79,423	145,121	33,216	15	
Current liabilities	1,893,271	47,337	58	4,084	1	633,631	49,535	101	4,029	1	
Non-current liabilities	185,794	24	-	4,811	-	63,139	-	-	5,415	-	
Equity	1,599,350	38,966	167,482	26,946	16	1,079,464	29,888	145,020	23,772	14	
Total liabilities and equity	3,678,415	86,327	167,540	35,841	17	1,776,234	79,423	145,121	33,216	15	
Investment Book value	1,599,350	38,966	83,741	13,473	8	1,079,464	29,888	72,510	11,886	7	

	2017					2016					
	Consolidated wholly-owned subsidiaries		Jointly-controlled subsidiaries			Consolidated wholly-owned subsidiaries			Jointly-controlled subsidiaries		
Summary of Income Statements:	TData	POP	Aliança	Cia AIX	Cia ACT	TData	POP (1)	GVTPart. (2)	Aliança	Cia AIX	Cia ACT
Net operating income	4,023,145	29,512	-	45,622	82	2,538,270	32,233	1,531,692	-	42,840	
Operating costs and expenses	(2,311,211)	(16,049)	(43)	(43,448)	(80)	(1,448,225)	(20,142)	(1,300,347)	(155)	(41,760)	(7)
Financial income (expenses), net	56,506	1,392	27	1,686	-	86,760	1,217	(41,146)	41	1,980	
Income and social contribution taxes	(475,614)	(5,777)	-	(686)	-	(404,171)	(6,010)	(57,958)	-	(464)	(1)
Net income (loss) for the year	1,292,826	9,078	(16)	3,174	2	772,634	7,298	132,241	(114)	2,596	
Equity pickup, according to interest held	1,292,826	9,078	(8)	1,587	1	772,634	7,298	132,241	(57)	1,298	

1) Includes the consolidated result of the POP for the period from 04/01 to 12/31/16.

(2) Includes the consolidated results of GVTPart. For the period from 01/01 to 03/31/16.

b) Changes in investments

	TData (1)	POP (1)	GVTPart. (1)	Aliança (2)	AIX (2)	ACT (2)	Goodwill (3)	Surplus value of net assets acquired attributed to the Company	Other investments (4)	invest - Cor
Balances at 12/31/15	1,056,305	-	7,674,444	89,799	10,099	4	13,049,199	2,461,583	1,259	24,3
Equity pick-up Merger (Note 1.c.2)	772,634	7,298	132,241	(57)	1,298	3	-	(67,641)	-	8
Dividends and interest on equity	(749,395)	-	-	-	489	-	-	-	-	(74
Other comprehensive income	(80)	-	-	(17,232)	-	a	-	-	83	(1
Balances at 12/31/16	1,079,464	29,888	-	72,510	11,886	7	212,058	-	1,342	1,4
Equity pick-up Equity transactions (Note 1 c.1)	1,292,826	9,078	-	(8)	1,587	1	-	-	-	1,3
Dividends and interest on equity	(59,029)	-	-	-	-	-	-	-	-	(5
Other comprehensive income	(707,794)	-	-	-	-	-	-	-	-	(70
Other comprehensive income	(6,117)	-	-	11,239	-	-	-	-	338	
Balances at 12/31/17	1,599,350	38,966	-	83,741	13,473	8	212,058	-	1,680	1,9

(1) Wholly-owned entities.

(2) Jointly-controlled subsidiaries.

Telefônica Brasil S.A.

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(3) Goodwill: (i) R\$212,058 from partial spin-off of “Spanish and Figueira”, which was reversed to the Company upon merger with Telefônica Data Brasil Holding S.A. (TDBH) in 2006; and (ii) R\$12,837,141 originated from the acquisition of GVTPart. (Note 1 c3).

(4) Other investments (tax incentives and interest held in companies) are measured at fair value.

12) PROPERTY, PLANT AND EQUIPMENT

a) Breakdown and changes

	Switching and transmission equipment	Terminal equipment / modems	Infrastructure	Company Land	Other P&E	Estimated losses (1)	Assets a facilities un construct
Annual depreciation rate (%)	2.50 to 25.00	6.67 to 66.67	2.50 to 66.67		10.00 to 25.00		
Balances and changes:							
Balance at 12/31/15	14,476,070	1,530,793	3,371,532	313,105	711,085	(155,277)	1,771,7
Additions	355,291	88,653	157,101	215	304,176	(19,858)	5,521,1
Write-offs, net (2)	(20,447)	(467)	(98,879)	(202)	(751)	21,708	(36,4
Net transfers	3,693,341	693,367	361,905	-	(38,238)	(3)	(4,776,7
Depreciation	(2,581,663)	(1,303,734)	(504,787)	-	(357,263)	-	

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(Note 24) Merger (Note 1.c.2)	6,309,033	1,572,567	428,622	2,601	159,039	(331,956)	221,1
Balance at 12/31/16	22,231,625	2,581,179	3,715,494	315,719	778,048	(485,386)	2,700,8
Additions	42,997	141,132	91,160	550	238,989	(37,278)	6,062,6
Write-offs, net	(88,764)	(7,602)	(6,691)	(1,916)	(2,571)	162,224	(17,5
Net transfers	3,634,293	1,471,431	619,008	-	15,453	132,578	(5,891,9
Depreciation (Note 24)	(3,011,178)	(1,466,459)	(541,289)	-	(264,237)	-	
Balance at 12/31/17	22,808,973	2,719,681	3,877,682	314,353	765,682	(227,862)	2,854,0
At 12/31/16							
Cost	70,781,587	15,246,317	14,944,006	315,719	4,181,817	(485,386)	2,700,8
Accumulated depreciation	(48,549,962)	(12,665,138)	(11,228,512)	-	(3,403,769)	-	
Total	22,231,625	2,581,179	3,715,494	315,719	778,048	(485,386)	2,700,8
At 12/31/17							
Cost	74,092,109	16,797,604	15,628,384	314,353	4,404,945	(227,862)	2,854,0
Accumulated depreciation	(51,283,136)	(14,077,923)	(11,750,702)	-	(3,639,263)	-	
Total	22,808,973	2,719,681	3,877,682	314,353	765,682	(227,862)	2,854,0

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	Consolidated						
	Switching and transmission equipment	Terminal equipment / modems	Infrastructure	Land	Other P&E	Estimated losses (1)	Asse facilities constr
Annual depreciation rate (%)	2.50 to 25.00	6.67 to 66.67	2.50 to 66.67		10.00 to 25.00		
Balances and changes:							
Balance at 12/31/15	20,935,963	3,146,109	3,655,951	315,705	1,066,452	(494,149)	1,85
Additions	634,635	203,775	159,081	215	288,666	(19,962)	5,54
Write-offs, net (2)	(24,236)	(816)	(99,437)	(201)	3,059	28,539	(3)
Net transfers	3,473,332	677,572	523,995	-	(159,702)	(3)	(4,62)
Depreciation (Note 24)	(2,787,820)	(1,438,333)	(514,383)	-	(379,119)	-	
Balance at 12/31/16	22,231,874	2,588,307	3,725,207	315,719	819,356	(485,575)	2,73
Additions	42,999	141,132	91,160	550	259,620	(37,374)	6,08
Write-offs, net	(88,766)	(7,602)	(6,966)	(1,916)	(2,522)	162,319	(1)
Net transfers	3,634,293	1,471,431	619,008	-	34,093	132,578	(5,91)
Depreciation (Note 24)	(3,011,291)	(1,468,936)	(544,454)	-	(284,983)	-	
Business Combination (Note 1.c.1)	-	-	1,342	-	4,888	-	
	22,809,109						2,88

Balance at 12/31/17		2,724,332	3,885,297	314,353	830,452	(228,052)	
At 12.31.16							
Cost	70,789,534	15,294,619	15,023,890	315,719	4,308,718	(485,575)	2,73
Accumulated depreciation	(48,557,660)	(12,706,312)	(11,298,683)	-	(3,489,362)	-	
Total	22,231,874	2,588,307	3,725,207	315,719	819,356	(485,575)	2,73
At 12.31.17							
Cost	74,100,056	16,845,903	15,728,808	314,353	4,687,395	(228,052)	2,88
Accumulated depreciation	(51,290,947)	(14,121,571)	(11,843,511)	-	(3,856,943)	-	
Total	22,809,109	2,724,332	3,885,297	314,353	830,452	(228,052)	2,88

(1) The Company and its subsidiaries recognized estimated losses for potential obsolescence of materials used in property and equipment maintenance, based on levels of historical use and expected future use.

(2) Net write-offs regarding "Infrastructure and Assets and Facilities under Construction" for the year ended December 31, 2016, include the amount of R\$99,210 regarding the disposal of 1,655 towers owned by the Company to Telxius Torres Brasil Ltda (former Towerco Latam do Brasil Ltda), a directly controlled Telefónica subsidiary.

b) Depreciation rates

In accordance with IAS 16 / CPC 27, the Company performed valuations of useful lives applied to its property, plant and equipment using the direct comparative method of market data. The results of these evaluations did not indicate the need for changes in useful lives in 2017.

In relation to 2016, these evaluations indicated the need for changes in useful lives and annual depreciation rates for some items of asset classes. This change in the accounting estimate, which was applied reduced the depreciation expense for the annual period ended December 31, 2016 by R\$157,053.

c) Property and equipment items pledged in guarantee

At December 31, 2017, the Company had consolidated amounts of property and equipment items pledged in guarantee for lawsuits, amounting to R\$176,591 (R\$203,600 at December 31, 2016).

d) Reversible assets

The STFC service concession arrangement establishes that all assets owned by the Company and that are indispensable to the provision of the services described in the referred to arrangement are considered “reversible” (returnable to the concession authority). At December 31, 2017, estimated residual value of reversible assets was R\$8,763,355 (R\$8,813,916 at December 31, 2016), which comprised switching and transmission equipment and public use terminals, external network equipment, energy, system and operational support equipment.

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NOTES TO FINANCIAL STATEMENTS

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e) Finance lease

At December 31, 2017, classes of switching and transmission equipment, infrastructure and other assets included the net residual amounts of R\$280,103 (R\$298,604 as of December 31, 2016), in which the Company is a lessee of financial leasing operations.

13) INTANGIBLE ASSETS

a) Breakdown, changes and amortization rates

	Indefinite useful life		Company Finite useful life			Other intangible assets
	Goodwill	Software	Customer portfolio	Trademarks	Licenses	
<u>Annual amortization rate (%)</u>		20.00	11.76	5.13	3.60 to 6.67	20.00
<u>Balances and changes:</u>						
Balance at 12/31/15	10,013,222	2,162,935	861,310	1,242,025	15,635,082	6,495
Additions (1)	-	615,462	-	-	185,450	11,815
Write-offs, net	-	(3)	-	-	-	-

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Net transfers	-	617,232	-	-	-	(17,693)
Amortization (Note 24)	-	(922,275)	(507,102)	(107,149)	(922,564)	(6,287)
Merger (Note 1.c.2)	12,837,141	219,856	2,207,012	22,944	-	56,368
Balance at 12/31/16	22,850,363	2,693,207	2,561,220	1,157,820	14,897,968	50,698
Additions	-	260,777	-	-	-	207
Write-offs, net	-	(7,425)	-	-	-	-
Net transfers	-	701,545	-	-	-	(24,297)
Amortization (Note 24)	-	(943,704)	(582,357)	(84,205)	(928,362)	(5,660)
Balance at 12/31/17	22,850,363	2,704,400	1,978,863	1,073,615	13,969,606	20,948
At 12/31/16						
Cost	22,850,363	14,019,938	4,513,278	1,658,897	20,237,572	267,065
Accumulated amortization	-	(11,326,731)	(1,952,058)	(501,077)	(5,339,604)	(216,367)
Total	22,850,363	2,693,207	2,561,220	1,157,820	14,897,968	50,698
At 12/31/17						
Cost	22,850,363	14,966,763	4,513,278	1,658,897	20,237,572	238,193
Accumulated amortization	-	(12,262,363)	(2,534,415)	(585,282)	(6,267,966)	(217,245)
Total	22,850,363	2,704,400	1,978,863	1,073,615	13,969,606	20,948

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	Indefinite useful life		Consolidated Finite useful life			Other intangible assets
	Goodwill	Software	Customer portfolio	Trademarks	Licenses	
Annual amortization rate (%)		20.00 to 50.00	11.76 to 12.85	5.13 to 66.67	3.60 to 6.67	6.67 to 20.00
<u>Balances and changes:</u>						
Balance at 12/31/15	23,062,421	2,385,723	3,154,501	1,274,803	15,635,082	18,190
Additions (1)	-	634,528	-	-	185,450	19,796
Write-offs, net	-	24	-	-	-	(11)
Net transfers	-	616,336	-	-	-	19,207
Amortization (Note 24)	-	(942,090)	(593,281)	(116,983)	(922,564)	(6,480)
Balance at 12/31/16	23,062,421	2,694,521	2,561,220	1,157,820	14,897,968	50,702
Additions	-	276,390	-	-	-	207
Write-offs, net	-	(7,427)	-	-	-	-
Net transfers	-	701,545	-	-	-	(24,297)
Amortization (Note 24)	-	(944,753)	(582,357)	(84,205)	(928,362)	(5,660)
Business Combination (Note 1.c.1)	-	530	-	-	-	-

Balance at 12/31/17	23,062,421	2,720,806	1,978,863	1,073,615	13,969,606	20,952
At 12/31/16						
Cost	23,062,421	14,062,127	4,513,278	1,658,897	20,237,572	267,074
Accumulated amortization	-	(11,367,606)	(1,952,058)	(501,077)	(5,339,604)	(216,372)
Total	23,062,421	2,694,521	2,561,220	1,157,820	14,897,968	50,702
At 12/31/17						
Cost	-	15,125,532	4,513,278	1,658,897	20,237,572	238,201
Accumulated amortization	23,062,421	(12,404,726)	(2,534,415)	(585,282)	(6,267,966)	(217,249)
Total	23,062,421	2,720,806	1,978,863	1,073,615	13,969,606	20,952

(1) On December 17, 2015, the Company was the winner in seven lots at a frequency of 2,500MHz, offering the amount of R\$185,450. On July 21, 2016, through acts No. 2.483, No. 2.485 and No. 2.486, the Directing Council of ANATEL approved the use of these radio frequencies. The terms of authorization of these radio frequency bands were signed on July 26, 2016 and published in the DOU on August 26, 2016.

b) Goodwill breakdown

	Company	Consolidated
Ajato Telecomunicação Ltda.	149	149
Spanish e Figueira (merged with TDBH) (1)	-	212,058
Santo Genovese Participações Ltda. (2)	71,892	71,892
Telefônica Televisão Participações S.A. (3)	780,693	780,693
Vivo Participações S. A. (4)	9,160,488	9,160,488
GVT Participações S. A. (5)	12,837,141	12,837,141
Total	22,850,363	23,062,421

(1) Goodwill from partial spin-off of "Spanish and Figueira", which was reversed to the Company upon merger of Telefônica Data Brasil Holding S.A. (TDBH) in 2006.

(2) Goodwill generated upon acquisition of equity control of Santo Genovese Participações (parent company of Atrium Telecomunicações Ltda.), in 2004.

(3) Goodwill generated upon acquisition of Telefônica Televisão Participações (formerly Navytree) merged in 2008.

(4) Goodwill generated upon acquisition/merger of Vivo Participações in 2011.

(5) Goodwill generated upon acquisition of GVT Participações in 2015 (Note 1.c3).

c) Goodwill impairment testing

The Company assessed recoverability of goodwill carrying amount based on the value in use and discounted cash flow method.

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The process for determination of the value in use involves the use of assumptions, judgments and estimates on cash flows, such as revenue, cost and expense growth rates, estimated future investments and working capital and discount rates. The assumptions about cash flow increase projections were based on management's estimates, market studies and macroeconomic projections. Future cash flows were discounted at the WACC (Weighted Average Cost of Capital) rate.

Consistent with the economic analysis techniques, the assessment of value in use is made for a period of five (5) years, and thereafter, considering the perpetuity of the assumptions based on the capacity of business continuity for an indefinite time. Management considered that the period of 5 years is adequate, based on its past experience in preparing cash flow projections. Such understanding is in line with paragraph 35 of IAS 36/ CPC 01 R1 – Impairment of Assets.

The growth rate used to extrapolate the projections beyond the 5 years period was 4.5% and 5.0% in 2017 and 2016, respectively. Estimated future cash flows were discounted at the pre tax rate of 13.58% in 2017 (14.75% in 2016), also at nominal amounts.

The inflation rate for the period analyzed in the projected cash flows was 4.0% in 2017 (4.5% in 2016).

Key assumptions were based on the Company's historical performance and reasonable macroeconomic assumptions grounded on financial market projections, documented and approved by the Company's management.

Based on annual impairment testing of the Company's intangible assets, prepared using projections considering the financial statements at December 31, 2017 and 2016, growth projections and operating results for the year ended December 31, 2017 and 2016, no impairment losses or evidence of losses were identified, since value in use is higher than net carrying amount as of the assessment date.

c.1) Key assumptions used in the calculation of value in use:

The value in use is mainly impacted by the following assumptions:

- Revenue Growth: is based on the observation of the historical behavior of each revenue line, as well as trends based on market analysis. The projected revenue differs between product lines and services with a tendency of growth in broadband services, pay TV and IT compared to voice services (fixed).
- Growth in operating margin: takes into account the historical margin estimate of price correction, as well as ongoing projects with the aim of greater cost efficiency.
- Capex volume: we considered the projects in progress aiming at the best efficiency of use of CapEx associated with the need to increase capacity and coverage in line with the growth in revenue provided under the long-term plan. The Capex volume may also be impacted by inflation and currency fluctuations.
- Discount rate: represents the assessment of risks in the current market. The calculation of the discount rate is based on the Company's specific circumstances and derived from the weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by Company investors. The cost of debt is based on loans with interest income that the Company is obliged to honor. The specific risk segment is incorporated by applying individual beta factors.

c.2) Sensitivity to changes in assumptions

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The Company carries out a sensitivity analysis of the impairment test by considering reasonable changes in the main assumptions used in such test.

The following maximum increases or decreases, expressed in percentage points (p.p.) were assumed for the years ended December 31, 2017 and 2016:

<u>Changes in key assumptions</u>	In percentage points (p.p)
Financial variables	
Discount rate	+/- 1.0
Perpetuity growth rates	+/- 0.5
Operating variables	
OIBDA Margin	+/- 2.0
Capex/Revenues Margin	+/- 1.0

The sensitivity analysis performed at year-end 2017 and 2016 indicates that there are no significant risks arising from possible changes in the financial and operating variables, considered individually. In other words, the Company considers that within the above (reasonably wide) limits, no losses would be recognized.

14) PERSONNEL, SOCIAL CHARGES AND BENEFITS

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Salaries and wages	37,070	54,525	40,171	55,476
Social charges and benefits	354,467	375,249	399,229	384,073
Profit sharing	247,501	282,134	273,384	285,887
Share-based payment plans (Note 29)	31,567	45,906	33,880	46,223
Total	670,605	757,814	746,664	771,659

Current	648,957	746,798	723,380	760,643
Noncurrent	21,648	11,016	23,284	11,016

15) TRADE ACCOUNTS PAYABLE

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Sundry suppliers (Opex, Capex, Services e Material)	6,380,614	6,270,535	6,683,503	6,617,240
Amounts payable (operators, cobilling)	183,250	314,959	187,976	314,958
Interconnection / interlink (1)	224,777	369,715	224,777	369,715
Related parties (Note 28)	1,772,203	656,093	350,844	381,240
Total	8,560,844	7,611,302	7,447,100	7,683,153
Current	8,560,844	7,539,395	7,447,100	7,611,246
Noncurrent	-	71,907	-	71,907

(1) As of December 31, 2016, the amount recorded as non-current related to the judicial proceeding filed against SMP operators claiming the reduction of the VU-M amount. On October 15, 2007, an injunction was obtained to provide a judicial deposit of the difference between VC1 calls and the amount effectively charged by SMP operators. In May 2017, the updated amount of R\$71,956 was raised in favor of the operators involved, after an agreement between the parties.

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16) TAXES, CHARGES AND CONTRIBUTIONS

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Income and social contribution taxes payable	-	-	4,479	11,520
ICMS	1,106,507	1,187,244	1,149,137	1,226,172
PIS and COFINS	385,501	371,838	419,589	412,149
Fust and Funttel	93,869	92,828	93,869	92,828
ISS, CIDE and other taxes	102,327	67,420	113,689	77,193
Total	1,688,204	1,719,330	1,780,763	1,819,862
Current	1,669,741	1,698,334	1,731,315	1,770,731
Noncurrent	18,463	20,996	49,448	49,131

17) DIVIDENDS AND INTEREST ON EQUITY (IOE)**a) Dividends and interest on equity receivable**a.1) Breakdown:

At December 31, 2017, the Company had R\$323,206 to be received from TData, related to mandatory minimum dividends of 2017.

a.2) Changes:

	Company	Consolidated
Balance at 12/31/15	18,645	489
Data's supplementary dividends for 2015 of TData	389,395	-
Interim dividends for 2016	360,003	3
Reversal of dividends approved by AIX	(489)	(489)
Receipt of dividends and interest on equity	(767,554)	(3)
Balance at 12/31/16	-	-
Data's supplementary dividends for 2016 of TData	384,588	-
Data's mandatory minimum dividend of 2017	323,206	-
Receipt of dividends and interest on equity of TData	(384,588)	-
Balance at 12/31/17	323,206	-

For the cash flow statement, interest on equity and dividends received from the subsidiary are allocated to "Investing Activities" group of accounts.

b) Dividends and interest on equity payable

b.1) Breakdown:

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	Company/Consolidated	
	12/31/17	12/31/16
Telefónica Latinoamérica Holding S.L.	505,750	454,583
Telefónica S.A.	609,003	547,390
SP Telecomunicações Participações Ltda	383,933	345,090
Telefónica Chile S.A.	1,070	962
Non-controlling interest	896,360	847,006
Total	2,396,116	2,195,031

b.2) Changes:

	Company/ Consolidated
Balance at 12/31/15	2,209,362
Supplementary dividends for 2015	1,287,223
Interim interest on equity (net of IRRF)	1,846,323
Unclaimed dividends and interest on equity	(189,471)
Payment of dividends and interest on equity IRRF on shareholders exempt/immune from interest on equity	(2,966,384) 7,978
Balance at 12/31/16	2,195,031
Supplementary dividends for 2016	

	1,913,987
Interim interest on equity (net of IRRF)	2,054,143
Unclaimed dividends and interest on equity	(101,778)
Payment of dividends and interest on equity	(3,668,551)
IRRF on shareholders exempt/immune from interest on equity	3,284
Balance at 12/31/17	2,396,116

For the cash flow statement, interest on equity and dividends paid to shareholders are recognized in "Financing Activities".

Interest on equity and dividends not claimed by shareholders expire within three years from the initial payment date. Should dividends and interest on equity expire, these amounts are recorded in retained earnings for later distribution.

18) PROVISIONS AND CONTINGENCIES

The Company and its subsidiaries are parties to administrative and judicial proceedings and labor, tax and civil claims filed in different courts. The management of the Company and its subsidiaries, based on the opinion of its legal counsel, recognized provisions for proceedings for which an unfavorable outcome is considered probable.

Breakdown of changes in provisions for cases in which an unfavorable outcome is probable, in addition to contingent liabilities and provisions for decommissioning are as follows:

Telefônica Brasil S.A.**NOTES TO FINANCIAL STATEMENTS**

Years ended December 31, 2017 and 2016

(In thousands of reais, unless otherwise stated)

	Company					Contingent liabilities (PPA) (1)	Provision for decommissioning (2)	Total
	Provisions for contingencies							
	Labor	Tax	Civil	Regulatory				
Balances at 12/31/15	1,140,492	2,684,924	965,730	595,028	286,983	298,751	5,971,908	
Additions (income) (Note 25)	588,104	126,438	674,733	123,532	-	-	1,512,807	
Write-offs due to reversal (income) (Note 25)	(148,073)	(51,841)	(341,290)	(10,551)	(8,049)	(20,551)	(580,355)	
Other additions	-	100,314	7,826	-	-	162,628	270,768	
Write-offs due to payment Monetary restatement Merger (note 1 c.2)	(394,473)	(146,628)	(526,853)	(2,561)	(11,240)	-	(1,081,755)	
	153,284	382,002	211,800	71,785	58,565	11,462	888,898	
	35,236	14,597	46,284	51,701	555,486	89,541	792,845	
Balances at 12/31/16	1,374,570	3,109,806	1,038,230	828,934	881,745	541,831	7,775,116	
Additions (income) (Note 25)	804,537	215,999	745,656	271,124	-	-	2,037,316	
Write-offs due to reversal (income) (Note 25)	(507,861)	(69,269)	(307,406)	(72,780)	(89,230)	-	(1,046,546)	
Other additions (reversal)	-	100,252	(1,098)	-	-	20,765	119,919	
Write-offs due to	(860,698)	(158,783)	(548,521)	(6,873)	-	-	(1,574,875)	

payment							
Write-offs							
due to taxes							
(3)	-	(66,027)	-	-	-	-	(66,027)
Monetary							
restatement	143,771	342,922	120,574	83,387	53,281	12,129	756,064
Balances at							
12/31/17	954,319	3,474,900	1,047,435	1,103,792	845,796	574,725	8,000,967
At 12/31/16							
Current	202,113	-	205,831	775,679	-	-	1,183,623
Noncurrent	1,172,457	3,109,806	832,399	53,255	881,745	541,831	6,591,493
At 12/31/17							
Current	239,229	-	201,673	994,009	-	-	1,434,911
Noncurrent	715,090	3,474,900	845,762	109,783	845,796	574,725	6,566,056

	Consolidated						
	Provisions for contingencies						
	Labor	Tax	Civil	Regulatory	Contingent liabilities (PPA) (1)	Provision for decommissioning (2)	Total
Balances at							
12/31/15	1,166,151	2,736,191	1,010,356	642,695	843,882	405,421	6,804,696
Additions							
(income)							
(Note 25)	611,776	126,446	690,470	126,514	-	-	1,555,206
Write-offs							
due to							
reversal							
(income)							
(Note 25)	(153,758)	(53,616)	(343,016)	(10,552)	(9,088)	(32,924)	(602,954)
Other							
additions	958	100,314	7,897	-	-	162,628	271,797
Write-offs							
due to							
payment	(396,894)	(159,039)	(538,309)	(2,580)	(11,240)	-	(1,108,062)
Monetary							
restatement	154,724	379,385	211,959	72,857	58,191	11,462	888,578
Balances at							
12/31/16	1,382,957	3,129,681	1,039,357	828,934	881,745	546,587	7,809,261
Additions							
(income)							
(Note 25)	809,754	226,125	748,620	271,124	-	-	2,055,623

Write-offs due to reversal (income) (Note 25)	(512,583)	(71,684)	(309,927)	(72,780)	(89,230)	-	(1,056,204)
Other additions (reversal)	(492)	93,596	207	-	-	20,765	114,076
Write-offs due to payment	(865,656)	(168,407)	(551,928)	(6,873)	-	-	(1,592,864)
Write-offs due to taxes (3)	-	(66,027)	-	-	-	-	(66,027)
Monetary restatement	147,334	348,393	123,487	83,387	53,281	12,129	768,011
Business combination (Note 1 c.1)	19,282	87,531	6,061	-	-	-	112,874
Balances at 12/31/17	980,596	3,579,208	1,055,877	1,103,792	845,796	579,481	8,144,750
At 12/31/16							
Current	202,113	-	205,831	775,679	-	-	1,183,623
Noncurrent	1,180,844	3,129,681	833,526	53,255	881,745	546,587	6,625,638
At 12/31/17							
Current	239,229	-	201,673	994,009	-	-	1,434,911
Noncurrent	741,367	3,579,208	854,204	109,783	845,796	579,481	6,709,839

(1) This refers to contingent liabilities arising from Purchase Price Allocation (PPA) generated on acquisition of the controlling interest of Vivo Participações in 2011 and GVTPart. in 2015.

(2) These refer to costs to be incurred to return the sites (locations for installation of base radio, equipment and real estate) to their respective owners in the same conditions as at the time of execution of the initial lease agreement.

(3) This refers to the amounts of tax on tax losses used to offset tax provisions arising from the Company's adherence to the Special Tax Regularization Program (PERT).

Telefônica Brasil S.A.**NOTES TO FINANCIAL STATEMENTS****Years ended December 31, 2017 and 2016****(In thousands of reais, unless otherwise stated)****a) Provisions and labor contingencies**

<u>Nature/Degree of Risk</u>	Amounts involved			
	Company 12/31/17	12/31/16	Consolidated 12/31/17	12/31/16
Provisions - probable losses	954,319	1,374,570	980,596	1,382,957
Possible losses	210,211	275,483	261,876	293,146

Labor provisions and contingencies involve labor claims filed by former employees and outsourced employees (the latter alleging subsidiary or joint liability) claiming for, among other issues, overtime, salary equalization, post-retirement benefits, allowance for health hazard and risk premium, and matters relating to outsourcing.

The Company is also a defendant in labor claims filed by retired former employees who are covered by the Retired Employees Medical Assistance Plan ("PAMA"), who, among other issues, are demanding the cancellation of amendments to this plan. Most of these claims await a decision by the Regional Labor Court of São Paulo and the Superior Labor Court. Based on the opinion of its legal counsel and recent decisions of the courts, management considers the risk of loss in these cases as possible. No amount has been specified for these claims, since is not possible to estimate the cost to the Company in the event of loss.

In addition, the Company is party to Public Civil Actions filed by the Labor Public Prosecutor's Office, mainly in relation to the determination that the Company must cease the engagement of intermediaries to carry out its core activities. No amounts were allocated to the possible degree of risk in these Public Civil Actions in the above table, since at this stage of the proceedings it is not possible to estimate the cost to the Company in the event of loss.

b) Provisions and tax contingencies

<u>Nature/Degree of Risk</u>	Company		Amounts involved	
	12/31/17	12/31/16	12/31/17	12/31/16
Provisions - probable losses	683,849	3,109,806	3,579,208	3,129,681
Federal	420,128	343,353	502,153	343,353
State	231,667	226,571	231,998	226,571
Municipal	32,054	30,519	32,054	30,519
FUST, FISTEL and EBC	2,791,051	2,509,363	2,813,003	2,529,238
Possible losses	34,029,094	29,539,669	35,388,910	30,050,578
Federal	7,936,925	5,917,148	8,226,374	5,931,022
State	18,015,683	14,999,333	18,968,349	15,389,802
Municipal	542,084	852,926	548,014	853,244
FUST, FUNTTEL, FISTEL and EBC	7,534,402	7,770,262	7,646,173	7,876,510

b.1) Probable tax contingencies

Management and its legal counsel understand that losses are probable in the following federal, state, municipal and other tax proceedings (FUST, FISTEL and EBC) are described below:

Federal Taxes

The Company and/or its subsidiaries are parties to administrative and legal proceedings relating to: (i) claims resulting from the non-ratification of compensation and refund requests formulated; (ii) CIDE levied on the remittance of amounts abroad related to technical and administrative assistance and similar services, as well as royalties; (iii) IRRF on interest on equity; (iv) Social Investment Fund (Finsocial) offset amounts; and (v) additional charges to the PIS and COFINS tax base, as well as additional charges to

COFINS required by Law No. 9,718/98.

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Telefônica Brasil S.A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(In thousands of reais, unless otherwise stated)

At December 31, 2017, consolidated provisions totaled R\$502,153 (R\$343,353 at December 31, 2016).

State taxes

The Company and/or its subsidiaries are parties to administrative and judicial proceedings relating to: (i) disallowance of ICMS credits; (ii) telecommunications services not subject to ICMS; (iii) tax credit for challenges / disputes over telecommunication services not provided or wrongly charged (Agreement 39/01); (iv) rate difference of ICMS; (v) ICMS on rent of infrastructure necessary for internet (data) services; and (vi) outflows of goods with prices lower than those of acquisition.

At December 31, 2017, consolidated provisions totaled R\$231,998 (R\$226,571 at December 31, 2016).

Municipal taxes

The Company and/or its subsidiaries are parties to various municipal tax proceedings, at the judicial level, relating to: (i) Property tax (IPTU); (ii) Services tax (ISS) on equipment leasing services, non-core activities and supplementary activities; and (iii) withholding of ISS on contractors' services.

At December 31, 2017, consolidated provisions totaled R\$32,054 (R\$30,519 at December 31, 2016).

FUST, FISTEL and EBC

The Company and/or subsidiaries have administrative and judicial discussions related to: (i) the non-inclusion of interconnection expenses and industrial exploitation of a dedicated line in the calculation basis of FUST; (ii) exclusion of the calculation basis of the Installation Inspection Fee ("TFI") and Inspection and Operation Fee ("TFF") of the mobile stations that are not owned by it; and (iii) Contribution to the Promotion of Public Broadcasting (EBC).

At December 31, 2017, consolidated provisions totaled R\$2,813,003 (R\$2,529,238 at December 31, 2016).

b.2) Possible tax contingencies

Management and its legal counsel understand that losses are possible in the following federal, state, municipal and other tax proceedings (FUST, FUNTTEL, FISTEL and EBC) are described below:

Federal taxes

The Company and/or its subsidiaries are parties to various administrative and judicial proceedings, at the federal level, which are awaiting decisions in different court levels.

The most important of these proceedings are: (i) statements of dissatisfaction resulting from failure to approve requests for compensation submitted by the Company; (ii) INSS (social security contribution) (a) on compensation payment for salary losses arising from the "*Plano Verão*" and the "*Plano Bresser*"; (b) SAT, social security amounts owed to third parties (INCRA and SEBRAE) and (c) supply of meals to employees, withholding of 11% (assignment of workforce); (iii) IRRF and CIDE on the funds remitted abroad related to technical services and to administrative support and similar services, etc., and royalties; (iv) IRPJ and CSLL - disallowance of costs and sundry expenses not evidenced; (v) deduction of COFINS on swap operation losses; (vi) PIS and COFINS accrual basis versus cash basis; (vii) IRPJ FINOR, FINAN or FUNRES; (viii) IRPJ and CSLL, disallowance of expenses on goodwill of the corporate restructuring of Terra Networks and Vivo S.A., and for the takeovers of Navytree, TDBH, VivoPart. and GVTPart.; (ix) ex-tariff, cancellation of the benefits under CAMEX Resolution No. 6, increase in the import duty from 4% to 28%; (x) IPI levied on shipment of fixed access units from the Company's establishment; (xi) PIS and COFINS levied on value-added services and monthly subscription services; (xii) INSS on Stock Options - requirement of social security contributions on amounts paid to employees under the stock option plan; (xiii) IOF - required on loan transactions, intercompany loans and credit transactions; and (xiv) operating expenses allegedly non-deductible and related to estimated losses on the recoverable value of accounts receivable.

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NOTES TO FINANCIAL STATEMENTS

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At December 31, 2017, consolidated amounts involved totaled R\$8,226,374 (R\$5,931,022 at December 31, 2016).

State taxes

The Company and/or its subsidiaries are parties to various administrative and judicial proceedings, at the state level, which are awaiting decisions in different court levels.

Among these lawsuits, the following are highlighted: (i) provision of facility, utility and convenience services and rental of movable property; (ii) international calls (DDI); (iii) reversal of ICMS credit related to the acquisition of items of property, plant and equipment and payment of ICMS in interstate transfers of property, plant and equipment between branches; (iv) reversal of previously unused ICMS credits; (v) service provided outside São Paulo state with ICMS paid to São Paulo State; (vi) co-billing; (vii) tax substitution with a fictitious tax base (tax guideline); (viii) use of credits related to acquisition of electric power; (ix) secondary activities, value added and supplementary services; (x) tax credits related to opposition/challenges regarding telecommunications services not provided or mistakenly charged (Agreement 39/01); (xi) deferred collection of ICMS - interconnection (DETRAF - Traffic and Service Provision Document); (xii) credits derived from tax benefits granted by other states; (xiii) disallowance of tax incentives related to cultural projects; (xiv) transfers of assets among business units owned by the Company; (xv) communications service tax credits used in provision of services of the same nature; (xvi) card donation for prepaid service activation; (xvii) reversal of credit from return and free lease in connection with assignment of networks (used by the Company itself and exemption of public bodies); (xviii) DETRAF fine; (xix) ICMS on own consumption; (xx) ICMS on exemption of public bodies; (xxi) ICMS on amounts given by way of discounts; (xxii) new tax register bookkeeping without prior authorization by tax authorities; (xxiii) ICMS on monthly subscription; (xxiv) tax on unmeasured services; and (xxv) ICMS on advertising services.

At December 31, 2017, consolidated amounts involved totaled R\$18,968,349 (R\$15,389,802 at December 31, 2016).

Municipal taxes

The Company and/or its subsidiaries are parties to various administrative and judicial proceedings, at the municipal level, which are awaiting decisions in different court levels.

The most important of these proceedings are: (i) ISS on non-core activity, value-added and supplementary services; (ii) ISS withholding at source; (iii) IPTU; (iv) land use tax; (v) various municipal charges; (vi) charge for use of mobile network and lease of infrastructure; (vii) advertising services; (viii) services provided by third parties; (ix) advisory services in corporate management provided by Telefónica Latino América Holding; (x) ISS on call identification and mobile phone licensing services; (xi) ISS on full-time services, provisions, returns and cancelled tax receipts; and (xii) ISS on data processing and antivirus congeners.

At December 31, 2017, consolidated amounts involved totaled R\$548,014 (R\$853,244 at December 31, 2016).

FUST, FUNTTEL, FISTEL and EBC

Universal Telecommunications Services Fund ("FUST")

Writs of mandamus were filed seeking the right to not include revenues with interconnection and Industrial Use of Dedicated Line (EILD) in FUST tax base, according to Abridgment No. 7 of December 15, 2005, as it does not comply with the provisions contained in sole paragraph of article 6 of Law No. 9,998/00, which are awaiting a decision from Higher Courts.

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Various delinquency notices were issued by ANATEL in the administrative level to collect charges on interconnections, EILD and other revenues not earned from the provision of telecommunication services.

At December 31, 2017, consolidated amounts involved totaled R\$4,316,571 (R\$4,089,065 at December 31, 2016).

Fund for Technological Development of Telecommunications ("FUNTTEL")

Proceedings filed for recognition of the right not to include interconnection revenues and any others arising from the use of resources that are part of the networks in FUNTTEL calculation basis, as determined by Law 10,052/00 and Decree No. 3,737/01, thus avoiding the improper application of Article 4, paragraph 5, of Resolution 95/13.

Several notifications of debits drawn up by the Ministry of Communications in administrative actions for constitution of the tax credit related to the interconnection, network resources and other revenues that do not originate from the provision of telecommunication services.

At December 31, 2017, consolidated amounts involved totaled R\$493,867 (R\$1,190,637 at December 31, 2016).

Telecommunications Inspection Fund ("FISTEL")

Judicial actions for the collection of TFI on: (a) extensions of the term of validity of the licenses for use of telephone exchanges associated with the operation of the fixed switched telephone service; and (b) extensions of the period of validity of the right to use radiofrequency associated with the operation of the telephone service personal mobile service.

At December 31, 2017, consolidated amounts involved totaled R\$2,556,443 (R\$2,352,000 at December 31, 2016).

Contribution to Empresa Brasil de Comunicação (“EBC”)

The Union of Telephony and Cellular and Personal Mobile Service Companies ("Sinditelebrasil") judicially discusses, on behalf of the associates, the Contribution to the Promotion of Public Broadcasting to EBC, created by Law 11,652/08.

Several notifications of debit entry were drawn up by ANATEL at the administrative level for the constitution of the tax credit.

At December 31, 2017, consolidated amounts involved totaled R\$279,292 (R\$244,808 at December 31, 2016).

c) Provisions civil contingencies

<u>Nature/Degree of Risk</u>	Company		Amounts involved	
	12/31/17	12/31/16	Consolidated 12/31/17	12/31/16
Provisions - probable losses	1,047,435	1,038,230	1,055,877	1,039,357
Possible losses	2,840,894	2,573,459	2,858,796	2,574,836

c.1) Provisions for probable civil losses

Management and its legal counsel understand that losses are probable in the following civil proceedings:

- The Company and/or its subsidiaries are parties to proceedings involving rights to the supplementary amounts from shares calculated on network expansion plans since 1996 (supplement of share proceedings). These proceedings are at different stages: lower courts, court of justice and high court of

justice. At December 31, 2017, consolidated provisions totaled R\$324,232 (R\$256,276 at December 31, 2016).

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NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(In thousands of reais, unless otherwise stated)

- The Company and/or its subsidiaries are parties to various civil proceedings related to consumers at the administrative and judicial level, relating to the non-provision of services and/or products sold. At December 31, 2017, consolidated provisions totaled R\$296,169 (R\$386,699 at December 31, 2016).
- The Company and/or its subsidiaries are parties to various civil proceedings of a non-consumer nature at administrative and judicial levels, all arising in the ordinary course of business. At December 31, 2017, consolidated provisions totaled R\$435,476 (R\$396,382 at December 31, 2016).

c.2) Civil contingencies assessed as possible losses

Management and its legal counsel understand that losses are possible in the following civil proceedings:

- Collective Action filed by SISTEL Participants' Association (ASTEL) in the state of São Paulo, in which SISTEL associates in the state of São Paulo challenge the changes made in the health insurance plan for retired employees ("PAMA") and claim for the reestablishment of the prior "status quo". This proceeding is still in the appeal phase, and awaits a decision on the Interlocutory Appeal filed by the Company against the decision on possible admission of the appeal to higher and supreme courts filed in connection with the Court of Appeals' decision, which changed the decision rendering the matter groundless. The amount cannot be estimated, and the claims cannot be settled due to their unenforceability because it entails the return to the prior plan conditions.
- Civil Class Actions filed by ASTEL, in the state of São Paulo, and by the Brazilian National Federation of Associations of Retirees, Pensioners and Pension Fund Members of the Telecommunications Industry (FENAPAS), both against SISTEL, the Company and other carriers, in order to annul the spin-off of the PBS private pension plan, alleging, in short, the "windup of the supplementary private pension plan of the SISTEL Foundation", which led to various specific mirror PBS plans, and corresponding allocation of funds from technical surplus and tax contingencies existing at the time of the spin-off. The amount cannot be

estimated, and the claims cannot be settled due to their unenforceability because this involves the return of the spun-off assets of SISTEL relating to telecommunication carriers of the former Telebrás System.

- The Company is party to other civil claims, at several levels, related to service rendering rights. Such claims have been filed by individual consumers, civil associations representing consumer rights or by the Bureau of Consumer Protection (PROCON), as well as by the Federal and State Public Prosecutor's Office. The Company is also party to other claims of several types related to the ordinary course of business. At December 31, 2017, the consolidated amount totaled R\$2,827,071 (R\$2,559,252 at December 31, 2016).
- TGLog (company controlled by TData) is a party to the civil enforcement action process in the 3rd Civil Court of Barueri - SP for the allegation of contractual noncompliance with the transportation of goods. At December 31, 2017, the amount was R\$178 (R\$1,377 at December 31, 2016).
- Terra Networks (company controlled by TData) is a party to: (i) supplier action related to the transmission of events; (ii) PROCON fine (annulment action); (iii) indemnification action related to the use of content; (iv) ECAD action on copyright collection; and (v) claim actions filed by former subscribers regarding unrecognized collection, collection of undue value and contractual noncompliance. At December 31, 2017, the amount was R\$17,340.
- The Company has received notices regarding noncompliance with the Customer Service (SAC) Decree. The Company is currently party to various lawsuits (administrative and legal proceedings). At December 31, 2017 and at December 31, 2016, the amount was R\$14,207.

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- Intellectual Property: Lune Projetos Especiais Telecomunicação Comércio e Ind. Ltda. (Lune), a Brazilian company, filed an action on November 20, 2001 against 23 wireless carriers claiming to own the patent for caller ID and the trademark "Bina". The purpose of that lawsuit was to interrupt provision of such service by carriers and to seek indemnification equivalent to the amount paid by consumers for using the service.

An unfavorable decision was handed down determining that the Company should refrain from selling mobile phones with Caller ID service ("Bina"), subject to a daily fine of R\$10,000.00 (Ten thousand reais) in case of noncompliance. Furthermore, according to that decision, the Company must pay indemnification for royalties, to be calculated in settlement. Motions for Clarification were proposed by all parties and Lune's motions for clarification were accepted since an injunctive relief in this stage of the proceedings was deemed applicable. A bill of review appeal was filed in view of the current decision which granted a stay of execution suspending that unfavorable decision until final judgment of the review. A bill of review was filed in view of the sentence handed down on June 30, 2016, by the 4th Chamber of the Court of Justice of the Federal District, in order to annul the lower court sentence and remit the proceedings back to the lower court for a new examination. At the present time, we await the judgment of the regimental grievance filed against a decision prior to the judgment, which rejected the application of the former lawyers of Lune as assistants of the author. There is no way to determine the extent of potential liabilities with respect to this claim.

- The Company and other wireless carriers figure as defendants in several lawsuits filed by the Public Prosecutor's Office and consumer associations to challenge imposition of a period to use prepaid minutes. The plaintiffs allege that the prepaid minutes should not expire after a specific period. Conflicting decisions were handed down by courts on the matter, even though the Company understands that its criteria for the period determination comply with ANATEL standards.

d) Provisions and regulatory contingencies

Amounts involved

<u>Nature/Degree of Risk</u>	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Provisions - probable losses	1,103,792	828,934	1,103,792	828,934
Possible losses	5,065,907	5,018,205	5,065,907	5,018,205

d.1) Provisions for regulatory contingencies assessed as probable losses

The Company is party to administrative proceedings against ANATEL, filed based on an alleged failure to meet sector regulations, and to judicial proceedings to contest sanctions applied by ANATEL at the administrative level. At December 31, 2017, consolidated provisions totaled R\$1,103,792 (R\$828,934 at December 31, 2016).

d.2) Regulatory contingencies assessed as possible losses

According to the Company's management and legal counsel, the likelihood of loss of the following regulatory civil proceedings is possible:

- The Company is party to administrative proceedings filed by ANATEL alleging noncompliance with the obligations set forth in industry regulations, as well as legal claims which discuss the sanctions applied by ANATEL at the administrative level. At December 31, 2017, the consolidated amount was R\$5,065,907 (R\$5,018,205 at December 31, 2016).

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(In thousands of reais, unless otherwise stated)

- Administrative and judicial proceedings discussing payment of a 2% charge on interconnection services revenue arising from the extension of right of use of SMP related radio frequencies. Under clause 1.7 of the authorization term that grants right of use of SMP related radio frequencies, the extension of right of use of such frequencies entails payment every two years, during the extension period (15 years) of a 2% charge calculated on net revenues from the service provider's Basic and Alternative Plans of the service company, determined in the year before that of payment.

However, ANATEL determined that in addition to revenues from Service Plans, the charge corresponding to 2% should also be levied on interconnection revenues and other operating revenues, which is not stipulated in clause 1.7 of referred Authorization Term.

Considering, based on the provisions of the Authorization Terms, that revenue from interconnection services should not be included in the calculation of the 2% charge for radiofrequency use right extension, the Company filed administrative and legal proceedings challenging these charges, based on ANATEL's position.

d.3) Term of Conduct Adjustment ("TAC")

The Board of Directors of ANATEL approved, on October 27, 2016, the Company's TAC. On September 27, 2017, this instrument was judged by the Brazilian Court of Audit ("TCU"), with the instruction of recommendations and determinations to ANATEL for the continuation of the analysis of the instrument.

d) Guarantees

The Company and its subsidiaries granted guarantees for tax, civil and labor proceedings, as follows:

	Consolidated					
	Property and equipment	12/31/17 Judicial deposits and garnishments	Letters of guarantee	Property and equipment	12/31/16 Judicial deposits and garnishments	Letters of guarantee
Civil, labor and tax	176,591	6,663,805	1,669,476	203,600	6,351,566	1,948,088
Total	176,591	6,663,805	1,669,476	203,600	6,351,566	1,948,088

At December 31, 2017, in addition to the guarantees presented above, the Company and its subsidiaries had amounts under short-term investment frozen by courts (except for loan-related investments) in the consolidated amount of R\$69,764 (R\$67,393 at December 31, 2016).

19) DEFERRED REVENUE

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Services and goods (1)	301,292	389,706	301,292	389,706
Disposal of PP&E (2)	165,162	227,397	165,162	227,397
Activation revenue (3)	7,477	44,117	7,959	44,914
Customer loyalty program (4)	50,354	56,210	50,354	56,210
Government grants (5)	115,379	133,300	115,379	133,300
Other (6)	81,466	89,544	83,052	90,112
Total	721,130	940,274	723,198	941,639
Current	370,493	428,488	372,561	429,853
Noncurrent	350,637	511,786	350,637	511,786

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(1) This refers mainly to the balances of revenues from recharging prepaid services, which are recognized in income as services are provided to customers. It includes the amount of the agreement the Company entered into for industrial use of its mobile network by a different SMP operator in Regions I, II and III of the general authorizations plan, which is intended solely for the rendering of SMP services by the operator for its customers.

(2) Includes the net balances of the residual values from sale of non-strategic towers and rooftops, which are transferred to income as the conditions for recognition are fulfilled.

(3) This refers to the deferred activation revenue (fixed) recognized in income over the estimated period in which a customer remains in the base.

(4) This refers to points earned under the Company's loyalty program, which enables customers to accumulate points by paying bills relating to use of services offered. The balance represents the Company's estimate of customers exchanging points for goods and / or services in the future.

(5) This refers to: i) government subsidy arising from funds obtained from BNDES credit lines to be used in the acquisition of domestic equipment, which have been amortized over the useful life cycle of the equipment; and ii) subsidies arising from projects related to state taxes, which are being amortized over the contractual period.

(6) Includes amounts of the reimbursement for costs for leaving radio frequency sub-bands 2,500MHz to 2,690MHz due to cancellation of the Multichannel Multipoint Distribution Service (MMDS).

20) LOANS, FINANCING AND DEBENTURES

a) Breakdown

Company / Consolidated Information as of December 31, 2017		12/31/17		12/31/16				
Currency	Annual interest rate	Maturity	Garantees	Current	Non-current	Total	Current	Non-current
Local currency				1,478,656	2,237,192	3,715,848	1,480,382	2,901,000
Financial Institutions (a.1)				820,468	1,456,624	2,277,092	711,848	2,158,000
BNDES FINEM	URTJLP TJLP+ 0 to 4.08%	7/15/2019	(1)	371,946	213,958	585,904	363,734	567,000
BNDES FINEM	URTJLP		(3)	-	-	-	29,319	-
BNDES FINEM	URTJLP TJLP+ 0 to 3.38%	8/15/2020	(3)	184,007	303,560	487,567	182,737	480,000
BNDES FINEM	R\$ 5.00%	11/15/2019	(3)	14,654	13,377	28,031	14,686	27,000
BNDES FINEM	URTJLP TJLP+ 0 to 3.12%	1/15/2023	(3)	101,879	413,552	515,431	7,596	499,000
BNDES FINEM	R\$ 4.00% to 6.00%	1/15/2023	(3)	37,061	132,092	169,153	12,320	163,000
BNDES FINEM	R\$ Selic Acum. D-2 + 2.32%	1/15/2023	(3)	70,426	305,952	376,378	1,408	340,000
BNDES PSI	R\$ 2.5% to 5.5%	1/15/2023	(2)	25,405	19,413	44,818	92,508	44,000
BNB	R\$ 7.06% to 10%	8/18/2022	(4)	15,090	54,720	69,810	7,540	34,000
Suppliers (a.2)								
	R\$ 101.4% to 109.4% of CDI	12/31/2018		607,152	-	607,152	722,591	-
Finance lease (a.3)								
	R\$ IPCA and IGP-M	8/31/2033		51,036	334,424	385,460	45,943	328,000
	R\$ Selic				446,144			414,000

Contingent Consideration (a.4)						-	446,144		-	
Foreign Currency						142,299	82,955	225,254	1,062,593	225
Financial Institutions (a.1)						142,299	82,955	225,254	1,062,593	225
BNDES	UMBND	ECM +	7/15/2019	(1)			82,955			225
FINEM		2.38%			142,299			225,254	136,850	
Resolution	US\$						-			
4131 - Scotiabank and Bank of America						-		-	925,743	
Total						1,620,955	2,320,147	3,941,102	2,542,975	3,126

(1) Guarantee in receivables relating to 15% of the outstanding debt balance or four times the largest installment, whichever is higher.

(2) Pledge of financed assets.

(3) Assignment of receivables corresponding to 20% of outstanding debt balance or 1 time the last installment of sub-credit facility "A" (UMIPCA) plus 5 times the last installment of each of the other sub-credit facilities, whichever is greater.

(4) Bank guarantee provided by Banco Safra in an amount equivalent to 100% of the outstanding financing debt balance. Setting up a liquidity fund represented by financial investments in the amount equivalent to three installments of repayment referenced to the average post-grace period performance. Balances were R\$11,722 and R\$10,773 at December 31, 2017 and 2016, respectively.

a.1) Loans and financing

Some financing agreements with the BNDES described above, have lower interest rates than those prevailing on the market. These operations fall within the scope of IAS 20 / CPC 7 and thus the subsidies granted by BNDES were adjusted to present value deferred in accordance with the useful lives of the financed assets, resulting in a balance until December 31, 2017 as of R\$32,155 (R\$47,346 at December

31, 2016), note 19.

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NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(In thousands of reais, unless otherwise stated)

a.2) Financing - Suppliers

Under bilateral agreements with suppliers, the Company obtained extension of the terms for payment of trade accounts payable at a cost based on fixed CDI rate for the corresponding periods, with the net cost equivalent to between 101.4% to 109.4% of CDI (108.4% of CDI as of December 31, 2016).

a.3) Finance lease

The Company has agreements classified as finance lease agreements in the condition of lessee relate to: (i) lease of towers and rooftops arising from sale and finance leaseback transactions; (ii) lease of Built to Suit ("BTS") sites to install antennas and other equipment and transmission facilities; (iii) lease of information technology equipment and; (iv) lease of infrastructure and transmission facilities associated with the power transmission network. The net carrying amount of the assets has remained unchanged until sale thereof, and a liability is recognized corresponding to the present value of mandatory minimum installments of the agreement.

The amounts recorded in property, plant and equipment are depreciated over the estimated useful lives of the assets or the lease term, whichever is shorter.

The balance of amounts payable relating to aforementioned transactions comprises the following effects:

	Company / Consolidated	
	12/31/17	12/31/16
Nominal value payable	787,147	831,479

Unrealized financial expenses	(401,687)	(457,051)
Present value payable	385,460	374,428
Current	51,036	45,943
Noncurrent	334,424	328,485

Aging list of finance lease payable at December 31, 2017 is as follows:

	Company / Consolidated Nominal value payable	Present value payable
Up to 1 year	57,865	51,036
From 1 to 5 years	201,057	144,963
Over five years	528,225	189,461
Total	787,147	385,460

There are no unsecured residual values resulting in benefits to the lessor or contingent payments recognized as revenue at December 31, 2017 and 2016.

a.4) Contingent consideration

As part of the Purchase and Sale Agreement and Other Covenants executed by and between the Company and Vivendi to acquire all shares in GVTPart (Note 1c.3), a contingent consideration relating to the judicial deposit made by GVT for the monthly installments of deferred income tax and social contribution on goodwill amortization was agreed, arising from the corporate restructuring process completed by GVT in 2013. If these funds are realized (being reimbursed, refunded, or via netting), they will be returned to Vivendi, as long as they are obtained in a final unappeasable decision. Reimbursement will be made within 15 years and this amount is subject to monthly restatement at the SELIC rate.

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(In thousands of reais, unless otherwise stated)

b) Debentures

Information on the debentures at December 31, 2017 and 2016:

Issue	Issue date	Maturity	Information as of December 31, 2017				Company / Consolidated		
			Issued	Outstanding	Issue value	Remuneration p.a.	Current	Non-current	Total
4th issue – Series 3	10/15/2009	10/15/2019	810,000	23,557	810,000	IPCA+4.00%	312	40,010	40,322
1st issue – Minas Comunica	12/17/2007	7/5/2021	5,550	5,550	55,500	IPCA+0.50% 100% of CDI	24,088	72,264	96,352
3rd issue	9/10/2012	9/10/2017	200,000	200,000	2,000,000	+ 0.75% 100% of CDI	-	-	-
4th issue	4/25/2013	4/25/2018	130,000	130,000	1,300,000	+ 0.68% 108.25% of CDI	1,317,513	-	1,317,513
5th issue	2/8/2017	2/8/2022	200,000	200,000	2,000,000	100% of CDI	64,397	1,996,517	2,060,914
6th issue	11/27/2017	11/27/2020	100,000	100,000	1,000,000	+ 0.24%	6,176	999,462	1,005,638
Total							1,412,486	3,108,253	4,520,739

Transaction costs in connection with the 4th, 5th and 6th issues, totaling R\$5,422 at December 31, 2017 (R\$495 at December 31, 2016, 3th and 4th issues), were allocated as a reduction of liabilities as costs to be incurred and are recognized as financial expenses, according to the contractual terms of each issue.

c) Repayment schedule

At December 31, 2017, breakdown of noncurrent loans, financing, finance lease, debentures and contingent consideration by year of maturity is as follows:

<u>Year</u>	Loans and financing	Company / Consolidated			Total
		Debentures	Finance lease	Contingent Consideration	
2019	737,548	64,098	43,810	-	845,456
2020	353,587	1,024,088	37,140	-	1,414,815
2021	226,244	1,024,088	32,705	-	1,283,037
2022	204,427	995,979	31,308	-	1,231,714
2023 onwards	17,773	-	189,461	446,144	653,378
Total	1,539,579	3,108,253	334,424	446,144	5,428,400

d) Covenants

There are loans and financing with BNDES and debentures with specific covenants involving a penalty in the event of breach of contract. A breach of contract provided for in the agreements with the institutions listed above is characterized as noncompliance with covenants (analyzed on a quarterly, half-yearly or yearly basis), being a breach of a contractual clause, resulting in the early maturity of the contract.

At December 31, 2017 and 2016 all economic and financial indexes established in existing contracts have been achieved.

e) Changes

Changes in loans and financing, debentures, finance lease agreements and contingent considerations are as follows:

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(In thousands of reais, unless otherwise stated)

	Loans and financing	Debentures	Company Finance lease	Financing - Suppliers	Contingent Consideration	Total
Balance at 12/31/15	3,190,529	3,544,714	271,530	1,113,244	377,721	8,497,738
Additions	466,629	-	61,866	666,085	-	1,194,580
Government grants (Note 19)	(12,040)	-	-	-	-	(12,040)
Financial charges (Note 26)	385,240	486,178	62,242	49,933	37,012	1,020,605
Issue costs	-	495	-	-	-	495
Foreign exchange variation (Note 26)	(272,795)	-	-	-	-	(272,795)
Write-offs (payments)	(1,132,214)	(477,080)	(43,285)	(1,106,671)	-	(2,759,250)
Merger (Note 1 c.2)	1,532,666	-	22,075	-	-	1,554,741
Balance at 12/31/16	4,158,015	3,554,307	374,428	722,591	414,733	9,224,074
Additions	55,876	3,000,000	13,462	571,444	-	3,640,782
Government grants (Note 19)	(1,581)	-	-	-	-	(1,581)
Financial charges (Note 26)	300,153	485,295	45,265	70,603	31,411	932,727
Issue costs	-	(4,926)	-	-	-	(4,926)
Foreign exchange variation (Note 26)	15,846	-	-	-	-	15,846
Write-offs (payments)	(2,025,963)	(2,513,937)	(47,695)	(757,486)	-	(5,345,081)
Balance at 12/31/17	2,502,346	4,520,739	385,460	607,152	446,144	8,461,841

	Loans and financing	Debentures	Consolidated Finance lease	Financing - Suppliers	Contingent Consideration	Total
Balance at 12.31.15	4,773,489	3,544,714	296,684	1,228,682	377,721	10,221,290
Additions	466,629	-	61,866	666,085	-	1,194,580
Government grants (Note 19)	(12,040)	-	-	-	-	(12,040)
Financial charges (Note 26)	424,867	486,178	63,003	50,038	37,012	1,061,098
Issue costs	-	495	-	-	-	495
Foreign exchange variation (Note 26)	(272,795)	-	-	-	-	(272,795)
Write-offs (payments)	(1,222,135)	(477,080)	(47,125)	(1,222,214)	-	(2,968,554)
Balance at 12.31.16	4,158,015	3,554,307	374,428	722,591	414,733	9,224,074
Additions	55,876	3,000,000	13,462	571,444	-	3,640,782
Government grants (Note 19)	(1,581)	-	-	-	-	(1,581)
Financial charges (Note 26)	300,153	485,295	45,265	70,603	31,411	932,727
Issue costs	-	(4,926)	-	-	-	(4,926)
Foreign exchange variation (Note 26)	15,846	-	-	-	-	15,846
Write-offs (payments)	(2,025,963)	(2,513,937)	(47,695)	(757,486)	-	(5,345,081)
Balance at 12.31.17	2,502,346	4,520,739	385,460	607,152	446,144	8,461,841

Telefônica Brasil S.A.**NOTES TO FINANCIAL STATEMENTS****Years ended December 31, 2017 and 2016****(In thousands of reais, unless otherwise stated)**

The following is a summary of funding and payments made during the year ended December 31, 2017.

	Additions	Principal	Write-offs (payments) Financial charges	Total
Loans and financing	55,876	(1,781,261)	(244,702)	(2,025,963)
BNDES	15,998	(825,256)	(213,752)	(1,039,008)
BNB	39,878	(11,808)	(4,073)	(15,881)
Resolution 4131 - Scotiabank and Bank of America	-	(944,197)	(26,877)	(971,074)
Debêntures	3,000,000	(2,000,000)	(513,937)	(2,513,937)
4th issue – Series 3	-	-	(1,522)	(1,522)
3rd issue	-	(2,000,000)	(246,817)	(2,246,817)
4th issue	-	-	(151,152)	(151,152)
5th issue	2,000,000	-	(114,446)	(114,446)
6th issue	1,000,000	-	-	-
Suppliers	571,444	(668,512)	(88,974)	(757,486)
Finance lease	13,462	(35,722)	(11,973)	(47,695)
Total	3,640,782	(4,485,495)	(859,586)	(5,345,081)

Loans and Financing

Banco do Nordeste ("BNB")

On May 12, 2017, draw-downs were made related to the agreement signed on August 18, 2014 in the total amount of R\$39,878. The rates of this contract are 7.06% p.a. to 10.0% p.a., total term of 8 years, with interest payments and principal repayments in 72 monthly and successive installments. These resources were destined to investment and expansion projects for the Brazil's Northeast region.

BNDES FINEM

Contract 14.2.1192.1: On December 30, 2014, a financing line of R\$1,000,293 was contracted, with rates of: (i) TJLP + 0 to 3.12% p.a.; (ii) 4% p.a.; (iii) Selic + 2.32% p.a, total term of 8 years, with a grace period ending on January 15, 2018. After the grace period, interest and principal repayments will be paid in 60 monthly and successive installments; and (iv) 6% a.a. total term of 7 years, with a grace period ending on January 15, 2017. After the grace period, interest and principal repayments will be paid in 60 monthly and successive installments.

During 2017, three disbursements related to this agreement were made in the amount of R\$15,998.

These disbursements refer to a financial support plan linked to projects carried out in the 2014-2016 triennium, aiming at expansion in the areas of operation.

Debentures

5th Issue

At a meeting held on January 26, 2017, the Company's Board of Directors approved the 5th issue of simple debentures, non-convertible into shares of the Company, in a single series, unsecured, in the total amount of R\$2,000,000, which were subject to public placement with restricted efforts, under a firm guarantee regime, in the terms of ICVM 476/09.

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On February 8, 2017, the Company issued 200,000 debentures, with a par value equivalent to R\$10. The debentures have a maturity of five years and the nominal unit value of each of the debentures will not be monetarily restated.

Remuneration interest corresponds to 108.25% of the accumulated variation of the average daily rates of one-day Interbank Deposits ("DI").

6th Issue

At a meeting held on November 13, 2017, the Company's Board of Directors approved the 6th issue of simple debentures, non-convertible into shares of the Company, in a single series, unsecured, in the total amount of R\$1,000,000, which were subject to public placement with restricted efforts, under a firm guarantee regime, in the terms of ICVM 476/09.

On November 27, 2017, the Company issued 100,000 debentures, with a par value equivalent to R\$10. The debentures have a maturity of three years and the nominal unit value of each of the debentures will not be monetarily restated.

Remuneration interest corresponds to 100.00% of the accumulated variation of the average daily rates of one-day Interbank Deposits ("DI"), plus a spread equivalent to 0.24%.

21) OTHER LIABILITIES

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Authorization licenses (1)	258,742	1,048,523	258,742	1,048,523

Liabilities with related parties (Note 28)	139,173	145,332	125,987	112,358
Payment for license renewal (2)	167,536	215,154	167,536	215,154
Third-party withholdings (3)	126,361	222,696	144,593	227,685
Surplus from post-employment benefit plans (Note 30)	522,498	327,670	531,938	327,670
Amounts to be refunded to subscribers	187,826	166,644	189,380	168,708
Other liabilities	70,108	90,815	72,893	92,447
Total	1,472,244	2,216,834	1,491,069	2,192,545
Current	700,251	1,641,926	718,468	1,640,757
Noncurrent	771,993	574,908	772,601	551,788

(1) Includes a portion of the Company's liability arising from an agreement entered into with ANATEL, whereby the operators that won the auction of the 4G licenses organized Entidade Administradora do Processo de Redistribuição e Digitalização de Canais de TV e RTV ("EAD"), which will be responsible for equally performing all TV and RTV channel redistribution procedures and solutions to harmful interference in radio communication systems, in addition to other operations in which the winning operators have obligations, as defined in the agreement. On January 31, 2017, the Company paid R\$858,991 to EAD, referring to the 2nd and 3rd installments of the auction of 700 MHz national frequency bands for the provision of SMP, performed by ANATEL on September 30, 2014.

(2) This refers to the cost of renewing STFC and SMP licenses.

(3) This refers to payroll withholdings and taxes withheld from pay-outs of interest on equity and on provision of services.

22) EQUITY

a) Capital

According to its Articles of Incorporation, the Company is authorized to increase its share capital up to 1,850,000,000 common and preferred shares. The Board of Directors is the competent body to decide on any increase and consequent issue of new shares within the authorized capital limit.

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Nevertheless, Brazil's Corporation Law (Law nº 6404/76, Article 166, item IV) - establishes that capital may be increased by means of a Special Shareholders' Meeting resolution to decide about amendments to the Articles of Incorporation, if authorized capital increase limit has been reached.

Capital increases do not necessarily observe the proportion between the number of shares of each class to be maintained, however the number of non-voting or restricted-voting preferred shares must not exceed 2/3 of total shares issued.

Preferred shares are non-voting, except for cases set forth in Articles 9 and 10 of the Articles of Incorporation, but have priority in the event of reimbursement of capital, without premium, and are entitled to dividends 10% higher than those paid on common shares, as per article 7 of the Company's Articles of Incorporation and item II, paragraph 1, article 17 of Law No. 6404/76.

Preferred shares are also entitled to full voting rights if the Company fails to pay the minimum dividend to which they are entitled for three consecutive financial years and this right will be kept until payment of said dividend.

Subscribed and paid-in capital at December 31, 2017 and 2016 amounted to R\$63,571,416, divided into shares without par value, held as follows:

At December 31, 2017

Shareholders	Common Shares		Preferred Shares		Grand Total	
	Number	%	Number	%	Number	%
Controlling Group	540,033,264	94.47%	704,207,855	62.91%	1,244,241,119	73.58%
Telefônica						
Latinoamérica Holding,						
S.L.	46,746,635	8.18%	360,532,578	32.21%	407,279,213	24.09%
Telefônica S.A.	198,207,608	34.67%	305,122,195	27.26%	503,329,803	29.76%

SP Telecomunicações						
Participações Ltda	294,158,155	51.46%	38,537,435	3.44%	332,695,590	19.67%
Telefónica Chile S.A.	920,866	0.16%	15,647	0.00%	936,513	0.06%
Other shareholders	29,320,789	5.13%	415,131,868	37.09%	444,452,657	26.28%
Treasury Shares	2,290,164	0.40%	983	0.00%	2,291,147	0.14%
Total shares	571,644,217	100.00%	1,119,340,706	100.00%	1,690,984,923	100.00%
Treasury Shares	(2,290,164)		(983)		(2,291,147)	
Total shares outstanding	569,354,053		1,119,339,723		1,688,693,776	

At December 31, 2016

<u>Shareholders</u>	Common Shares		Preferred Shares		Grand Total	
	Number	%	Number	%	Number	%
<u>Controlling Group</u>	540,033,264	94.47%	704,207,855	62.91%	1,244,241,119	73.58%
Telefónica						
Latinoamérica Holding, S.L.	46,746,635	8.18%	360,532,578	32.21%	407,279,213	24.09%
Telefónica S.A.	198,207,608	34.67%	305,122,195	27.26%	503,329,803	29.76%
SP Telecomunicações						
Participações Ltda	294,158,155	51.46%	38,537,435	3.44%	332,695,590	19.67%
Telefónica Chile S.A.	920,866	0.16%	15,647	0.00%	936,513	0.06%
Other shareholders	29,320,789	5.13%	415,132,512	37.09%	444,453,301	26.28%
Treasury Shares	2,290,164	0.40%	339	0.00%	2,290,503	0.14%
Total shares	571,644,217	100.00%	1,119,340,706	100.00%	1,690,984,923	100.00%
Treasury Shares	(2,290,164)		(339)		(2,290,503)	
Total shares outstanding	569,354,053		1,119,340,367		1,688,694,420	

b) Capital reserves

b.1) Special goodwill reserve

This represents the tax benefit generated by the merger of Telefonica Data do Brasil Ltda. which will be capitalized in favor of the controlling shareholders (SPTE Participações Ltda) after the tax credits are realized under the terms of CVM Ruling No. 319/99. The balance of this account at December 31, 2017 and 2016 was R\$63,074.

Telefônica Brasil S.A.**NOTES TO FINANCIAL STATEMENTS****Years ended December 31, 2017 and 2016****(In thousands of reais, unless otherwise stated)**b.2) Other capital reserves

The breakdown as of December 31, 2017 and 2016 is as follows.

	Consolidated	
	12.31.17	12.31.16
Excess of the value in the issue or capitalization, in relation to the basic value of the share on the issue date (1)	2,735,930	2,735,930
Cancelation of treasury shares according to the Special Shareholders' Meeting (SGM) of 3/12/15 (2)	(112,107)	(112,107)
Direct costs of capital increases (3)	(62,433)	(62,433)
Incorporation of shares of GVTPart. (4)	(1,188,707)	(1,188,707)
Effects of the acquisition of Lemontree and GTR by Company and Tglog by TData (5)	(75,388)	(75,388)
Preferred shares delivered referring to the judicial process of expansion plan (6)	2	2
Effects of the acquisition of Terra Networks Brasil by TData (7)	(59,029)	-
Total	1,238,268	1,297,297

(1) Refers to the excess of the value in the issue or capitalization, in relation to the basic value of the share on the issue date.

(2) The cancellation of 2,332,686 shares issued by the Company, held in treasury, approved at the Special Shareholders' Meeting held on March 12, 2015.

(3) Refers to direct costs (net of taxes) of Company capital increases on April 28, 2015 and April 30, 2015, arising from the Primary Offering of Shares.

(4) Refers to the difference between the economic values of the merger of shares of GVTPart. and market value of shares, issued on the transaction closing date.

(5) Regarding the effects of the acquisition of shares of non-controlling shareholders that, with the adoption of IFRS 10 / CPCs 35 and 36, would be recorded in equity when there is no change in the shareholding control.

(6) Refers to the effects of write-offs due to the transfer of 62 preferred shares in treasury to outstanding shares, for compliance with judicial process decisions in which the Company is involved regarding rights to the complementary receipt of shares calculated in relation to network expansion plans after 1996.

(7) Refers to the effects of TData's acquisition of Terra Networks, related to the difference between the consideration given in exchange for the equity interest obtained and the value of the net assets acquired (note 1 c.1).

b.3) Treasury shares

The Company's shares held in treasury whose balance is resulting: (i) of the exercise of the right to withdraw from the Company's common and preferred shareholders, who expressed their dissent regarding the acquisition of GVTPart (see Note 1.c3); (ii) the acquisition of preferred shares in the financial market in accordance with the share buyback program in effect at the time of the transaction (see Note 22.f); and (iii) transfers of preferred shares, related to compliance with court decisions in which the Company is involved, which deals with rights to the complementary receipt of shares calculated in relation to network expansion plans after 1996.

The table below shows the changes in this caption for the year ended December 31, 2017 and 2016.

Telefônica Brasil S.A.**NOTES TO FINANCIAL STATEMENTS****Years ended December 31, 2017 and 2016****(In thousands of reais, unless otherwise stated)**

	Shares			In thousands of reais
<u>Treasury stock</u>	Common shares	Preferred shares	Total	
At 12.31.15	2,290,164	734	2,290,898	(87,805)
Transfer of lawsuits concerning judicial proceedings (1)	-	(395)	(395)	15
At 12.31.16	2,290,164	339	2,290,503	(87,790)
Acquisition of shares in the financial market (2)	-	706	706	(32)
Transfer of lawsuits concerning judicial proceedings (1)	-	(62)	(62)	2
At 12.31.17	2,290,164	983	2,291,147	(87,820)

(1) Refers to the transfer of preferred shares in treasury to outstanding shares to comply with decisions of lawsuits in which the Company is involved that deals with rights to the complementary receipt of shares calculated in relation to plans to expand the network after 1996.

(2) The Company acquired preferred shares issued by the Company in the financial market: (i) on June 1, 2017, 45 shares at a unit price of R\$ 47.31, totaling R\$ 2; and (ii) on July 5, 2017, 661 shares at a unit price of R\$45.26, totaling R\$32.

c) Income reserves

The amounts of the income reserves are distributed as follows:

	Legal reserve (1)	Expansion and Tax incentives (3) Modernization Reserve (2)	Total
At 12.31.15	1,703,643	700,000	6,928
			2,410,571

Reversal of reserves	-	(700,000)	-	(700,000)
Recording of reserves	204,262	550,000	10,141	764,403
At 12.31.16	1,907,905	550,000	17,069	2,474,974
Reversal of reserves	-	(550,000)	-	(550,000)
Recording of reserves	230,439	297,000	10,815	538,254
At 12.31.17	2,138,344	297,000	27,884	2,463,228

(1) This reserve is set up by allocation of 5% of the net income for the year, up to the limit of 20% of the paid-up capital. Legal reserve will only be used to increase capital and offset accumulated losses.

(2) This reserve is constituted based on the capital budget, whose purpose is to guarantee the expansion of the network capacity to meet the Company's increasing demand and guarantee the quality of service rendering. In accordance with Article 196 of Law No. 6404/76, the capital budget will be submitted for appreciation and approval by the Shareholders' Meeting.

(3) The Company has State VAT (ICMS) tax benefits in the states of Minas Gerais and Espírito Santo, relating to tax credits approved by the relevant bodies of said states, in connection with investments in the installation of SMP support equipment, fully operational, in accordance with the rules in force, ensuring that the localities listed in the call for bid be included in the SMP coverage area. The portion of profit subject to the incentive was excluded from dividend calculation, and may be used only in the event of capital increase or loss absorption.

d) Dividend and interest on equity

d.1) Additional dividends proposed for 2016

On April 26, 2017, the Company's Ordinary General Meeting approved the allocation of proposed additional dividends for 2016, not yet distributed, amounting of R\$1,913,987, equivalent to R\$1.06295487663 and R\$1.16925036430 for common and preferred shares, respectively, to the holders of common and preferred shares that were registered in the Company's records at the end of the day of the Ordinary General Meeting. The amount will be paid as of December 13, 2017.

Telefônica Brasil S.A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(In thousands of reais, unless otherwise stated)

d.2) Remuneration to shareholders

The dividends are calculated in accordance with the Company Articles of Incorporation and the Corporation Law. The table below shows the calculation of dividends and interest on equity for 2017 and 2016:

	2017	2016
Net income for the year	4,608,790	4,085,242
Allocation to legal reserve	(230,439)	(204,262)
Total	4,378,351	3,880,980
(-) Tax incentives - not distributable	(10,815)	(10,141)
Adjusted net income	4,367,536	3,870,839
Dividend and IOE distributed for the year:	2,416,639	2,172,145
Interest on equity (gross)	2,416,639	2,172,145
Balance of unallocated net income	1,950,897	1,698,694
(+) Reversal special reserve for modernization and expansion	550,000	700,000
(+) Expired equity instruments	101,778	221,559
(+-) Actuarial gains (losses) recognized and effect of limitation of surplus plan assets, net of taxes and other changes	(113,811)	(156,266)
Income available to be distributed	2,488,864	2,463,987
<u>Proposal for Distributions:</u>		
Special reserve for modernization and expansion	297,000	550,000
Additional proposed dividends	2,191,864	1,913,987
Total	2,488,864	2,463,987
Mandatory minimum dividend - 25% of adjusted net income	1,091,884	967,710

The manner proposed by management for payment of dividends was:

For 2017: The remaining unallocated balance of net income for the year ended December 31, 2017, amounting to R\$1,950,897, plus equity instruments lapsed in 2017 amounting to R\$101,778 and reversal special reserve for expansion and modernization of 2016 amounting to R\$550,000 and less other comprehensive income amounting to R\$113,811, totaling R\$2,488,864. The amount of R\$297,000 was

classified as "Special Reserve for Expansion and Modernization" and R\$2,191,864 was classified as additional proposed dividends in accordance with the management proposal for allocation of income for the year, submitted and approved at the General Shareholders' Meeting.

For 2016: The remaining unallocated balance of net income for the year ended December 31, 2016, amounting to R\$1,698,694, plus equity instruments lapsed in 2016 amounting to R\$221,559 and reversal special reserve for expansion and modernization of 2016 amounting to R\$700,000 and less other comprehensive income amounting to R\$156,266, totaling R\$2,463,987. The amount of R\$550,000 was classified as "Special Reserve for Expansion and Modernization" and R\$1,913,987 was classified as additional proposed dividends in accordance with the management proposal for allocation of income for the year, submitted and approved at the General Shareholders' Meeting at April 27, 2017.

Telefônica Brasil S.A.**NOTES TO FINANCIAL STATEMENTS**

Years ended December 31, 2017 and 2016

(In thousands of reais, unless otherwise stated)

<u>Total proposed for deliberation - per share</u>	2017	2016
Common shares	1.217277	1.062955
Preferred shares (1)	1.339005	1.169250

(1) 10% higher than the amount allocated to each common share, under article 7 of the Company Articles of Incorporation.

In 2017 and 2016, the Company allocated interim dividends and interest on equity, which were allocated to mandatory minimum dividends, as follows:

2017

Dates		Gross Amount		Net Value		Amount per Share (1)
Approval	Creation	Beginning of Payment	Common Preferred (2)	Total Common Preferred (2)	Total Common Preferred (2)	Common Preferred (2)
02/13/17	02/24/17	Until		48,379		
		12/31/18	56,916	123,084	180,000	0.084970
03/20/17	03/31/17	Until		350,0	104,621	0.093467
		12/31/18	10,669	239,331	153,000	