TELEFONICA BRASIL S.A.
Form 6-K
November 02, 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 November, 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 - 28º 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	X	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	X

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

SEPTEMBER 30, 2018

(A free translation of the original in Portuguese)

Independent auditor's report

Report on review of quarterly information

To the Board of Directors and Shareholders of

Telefônica Brasil S.A.

Introduction

We have reviewed the accompanying parent company and consolidated interim accounting information of Telefônica Brasil S.A. ("Company"), included in the Quarterly Information Form (ITR) for the quarter ended September 30, 2018, comprising the balance sheet at that date and the statements of income and comprehensive income for the quarter and nine-month periods then ended, and the statements of changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of the parent company and consolidated interim accounting information in accordance with the accounting standard CPC 21, Interim Financial Reporting, of the Brazilian Accounting Pronouncements Committee (CPC) and International Accounting Standard (IAS) 34, Interim Financial Reporting issued by the International Accounting Standards Board (IASB), as well as the presentation of this information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of the Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim accounting information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Reviews of Interim Financial Information (NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the interim information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying parent company and consolidated interim accounting information included in the quarterly information referred to above has not been prepared, in all material respects, in accordance with CPC 21 and IAS 34 applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the CVM.

Other matters

Statements of value added

We have also reviewed the parent company and consolidated statements of value added for the nine-month period ended September 30, 2018. These statements are the responsibility of the Company's management, and are required to be presented in accordance with standards issued by the CVM applicable to the preparation of Quarterly Information (ITR) and are considered supplementary information under IFRS, which do not require the presentation of the statement of value added. These statements have been submitted to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they have not been prepared, in all material respects, in a manner consistent with the parent company and consolidated interim accounting information taken as a whole.

São Paulo, October 26, 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 September 30, 2018 and December 31, 2017

(In thousands of reais) (A free

		Company		Consolidated				Compa
ASSETS	**Note**	**09.30.18**	**12.31.17**	**09.30.18**	**12.31.17**	**LIABILITIES AND EQUITY**	**Note**	**09.30.18**
Current assets		**17,410,063**	**16,668,039**	**17,850,019**	**16,731,666**	**Current liabilities**		**20,346,340**
Cash and cash equivalents	3	3,349,692	3,681,173	3,713,754	4,050,338	Personnel, social charges and benefits	14	687,651
Trade accounts receivable	4	8,566,785	8,413,403	8,670,107	8,588,466	Trade accounts payable	15	9,054,673
Inventories	5	421,936	324,711	459,313	348,755	Income and social contribution taxes payable	6	-
Income and social contribution taxes recoverable	6	272,849	401,259	273,564	505,535	Taxes, charges and contributions payable	16	1,649,084
Taxes, charges and contributions recoverable	7	3,244,830	1,984,999	3,257,501	2,058,455	Dividends and interest on equity	17	5,230,594
Judicial deposits and garnishments	8	317,266	324,465	317,612	324,638	Provisions	18	1,270,846
Prepaid expenses	9	698,575	425,298	714,710	446,439	Deferred revenue	19	514,919
Dividends and interest on equity	17	-	323,206	-	-	Loans and financing	20	1,441,799
Derivative financial instruments	30	105,168	87,643	105,785	87,643	Debentures	20	68,348
Other assets	10	432,962	701,882	337,673	321,397	Derivative financial instruments	30	3,005
						Other liabilities	21	425,421
		87,373,288	**85,495,114**	**86,484,303**	**84,651,169**			

Non-current assets								
Long-term assets						**Non-current liabilities**		**12,975,515**
Short-term investments pledged as collateral		79,686	81,472	79,953	81,486	Personnel, social charges and benefits	14	14,758
Trade accounts receivable	4	173,796	167,682	331,481	273,888	Taxes, charges and contributions payable	16	16,712
Deferred taxes	6	-	-	387,640	371,408	Deferred taxes	6	2,149,386
Taxes, charges and contributions recoverable	7	5,139,881	740,104	5,139,881	743,285	Provisions	18	4,826,948
Judicial deposits and garnishments	8	3,506,048	6,155,821	3,691,435	6,339,167	Deferred revenue	19	344,716
Prepaid expenses	9	118,787	21,684	122,802	23,116	Loans and financing	20	1,705,192
Derivative financial instruments	30	27,045	76,762	27,045	76,762	Debentures	20	3,090,298
Other assets	10	46,338	86,345	47,166	88,935	Derivative financial instruments	30	18,622
Investments	11	**2,060,945**	**1,949,276**	**107,015**	**98,902**	Other liabilities	21	808,883
Property, plant and equipment	12	**34,037,280**	**33,112,532**	**34,135,398**	**33,222,316**			
Intangible assets	13	**42,183,482**	**43,103,436**	**42,414,487**	**43,331,904**	**TOTAL LIABILITIES**		**33,321,855**
						Equity		**71,461,496**
						Capital	22	63,571,416
						Capital reserves	22	1,213,522
						Income reserves	22	2,471,637
						Other comprehensive income	22	33,893
						Retained earnings	22	4,171,028
						Additional proposed dividends	22	-

TOTAL ASSETS	**104,783,351**	**102,163,153**	**104,334,322**	**101,382,835**	**TOTAL LIABILITIES AND EQUITY**	**104,783,351**

TELEFÔNICA BRASIL S.A.
Income Statements
Three and nine-month periods ended September 30, 2018 and 2017

(In thousands of reais, except earnings per share)

		Company			
		Three-month periods ended		Nine-month periods en	
	Note	09.30.18	09.30.17	09.30.18	09.
Net operating revenue	23	**9,582,079**	**9,631,494**	**27,744,368**	**29,76**
Cost of sales and services	24	(4,786,097)	(4,751,844)	(14,439,206)	(14,327
Gross profit		**4,795,982**	**4,879,650**	**13,305,162**	**15,43**
Operating income (expenses)		**(2,404,190)**	**(3,922,622)**	**(7,614,988)**	**(11,946**
Selling expenses	24	(2,916,086)	(3,199,016)	(8,992,970)	(9,643
General and administrative expenses	24	(603,334)	(601,412)	(1,816,451)	(1,805
Other operating income	25	1,643,421	87,729	4,338,824	26
Other operating expenses	25	(528,191)	(209,923)	(1,144,391)	(764
Operating profit		**2,391,792**	**957,028**	**5,690,174**	**3,49**
Financial income	26	1,343,614	451,807	3,591,085	1,42
Financial expenses	26	(709,216)	(651,613)	(1,723,061)	(2,223
Equity in results of investees	11	237,599	654,357	1,384,419	1,07
Income before taxes		**3,263,789**	**1,411,579**	**8,942,617**	**3,77**
Income and social contribution taxes	6	(86,525)	(188,863)	(1,501,037)	(684
Net income for the period		**3,177,264**	**1,222,716**	**7,441,580**	**3,09**
Basic and diluted earnings per common share (in R$)	22	1.76	0.68	4.13	
Basic and diluted earnings per preferred share (in R$)	22	1.94	0.75	4.55	

TELEFÔNICA BRASIL S.A.
Statements of Changes in Equity
Nine-month periods ended September 30, 2018 and 2017
(In thousands of reais)

		Capital reserv	
	Capital	Special goodwill reserve	Other capital reserves
Balances at December 31, 2016	**63,571,416**	**63,074**	**1,297,297**
Payment of additional dividend for 2016	-	-	-
Unclaimed dividends and interest on equity	-	-	-
Repurchase of preferred shares	-	-	-
Preferred shares delivered referring to the judicial process of expansion plan	-	-	-
Transfer of tax incentives - DIPJ adjustment	-	-	-
Other comprehensive income	-	-	-
Equity transactions (Note 1 c)	-	-	(59,029)
Net income for the period	-	-	-
Interim interest on equity	-	-	-
Balances at September 30, 2017	**63,571,416**	**63,074**	**1,238,268**
Unclaimed dividends and interest on equity	-	-	-
Repurchase of preferred shares	-	-	-
Transfer of tax incentives - DIPJ adjustment	-	-	-
Other comprehensive income	-	-	-
Net income for the period	-	-	-
Allocation of income:			
Legal reserve	-	-	-
Interim interest on equity	-	-	-
Reversal of expansion and Modernization Reserve	-	-	-
Expansion and Modernization Reserve	-	-	-
Additional proposed dividends	-	-	-
Balances at December 31, 2017	**63,571,416**	**63,074**	**1,238,268**
Effects of the initial adoption of IFRS 9 and 15, net of taxes	-	-	-
Payment of additional dividend for 2017	-	-	-
Unclaimed dividends and interest on equity	-	-	-
Transfer of tax incentives - DIPJ adjustment	-	-	-
Other comprehensive income	-	-	-
Net income for the period	-	-	-
Interim interest on equity	-	-	-
Balances at September 30, 2018	**63,571,416**	**63,074**	**1,238,268**

TELEFÔNICA BRASIL S.A.
Statements of Other Comprehensive Income
Three and nine-month periods ended September 30, 2018 and 2017

(In thousands of reais)

		Company		
		Three-month periods ended		**p**
	Note	**09.30.18**	**09.30.17**	**09.**
Net income for the period		**3,177,264**	**1,222,716**	**7,44**
Other comprehensive income (losses) that may be reclassified into income (losses) in subsequent periods		**2,702**	**(3,979)**	**1**
Gains (losses) on derivative financial instruments	30	(490)	(5,063)	(
Taxes		166	1,721	
Cumulative Translation Adjustments (CTA) on transactions in foreign currency	11	3,049	(637)	1
Interest in comprehensive income of subsidiaries	11	(23)	-	
Other comprehensive income (losses) that can not be reclassified into income (losses) in subsequent periods		**(169)**	**44**	
Unrealized gains on investments available for sale	11	(257)	66	
Taxes		88	(22)	
Other comprehensive income		**2,533**	**(3,935)**	**1**
Comprehensive income for the period - net of taxes		**3,179,797**	**1,218,781**	**7,45**

TELEFÔNICA BRASIL S.A.
Consolidated Statements of Cash Flows
Nine-month periods ended September 30, 2018 and 2017

(A free translati
original in Por

(In thousands in reais)

	Company		Consolidate	
	09.30.18	**09.30.17**	**09.30.18**	**(**
Cash flows from operating activities				
Income before taxes	**8,942,617**	**3,776,670**	**9,679,819**	**4,**
Ajustement for:				
Depreciation and amortization	6,019,692	5,842,396	6,045,916	5
Foreign exchange on loans and derivative financial instruments	37,579	46,670	39,176	
Monetary assets and liabilities	614,751	476,343	614,356	
Equity pickup	(1,384,419)	(1,079,141)	4,914	
Loss on write-off/sale of assets	4,453	17,512	4,777	
Provision for impairment - accounts receivable	1,011,896	1,037,677	1,168,936	1
Change in liability provisions	(272,570)	176,907	(235,954)	
Write-off and reversals for impairment - inventories	(31,461)	(45,899)	(33,402)	
Pension plans and other post-retirement benefits	35,593	23,117	36,860	
Provisions for tax, civil, labor and regulatory contingencies	983,676	640,383	995,695	
Interest expense	380,371	770,991	380,371	
Others	(3,210)	10,383	(3,464)	
Changes in assets and liabilities				
Trade accounts receivable	(1,340,124)	(805,214)	(1,509,231)	(1,
Inventories	(65,764)	63,800	(77,156)	
Taxes recoverable	(5,985,851)	(269,874)	(5,863,914)	(2
Prepaid expenses	(83,143)	(62,142)	(80,719)	
Other assets	270,279	(79,749)	(14,304)	
Personnel, social charges and benefits	31,804	43,226	39,861	
Trade accounts payable	652,129	298,318	987,401	
Taxes, charges and contributions	(33,764)	494,612	(74,001)	
Provisions for tax, civil, labor and regulatory contingencies	(3,639,390)	(804,743)	(3,651,633)	(8
Other liabilities	(172,733)	(892,876)	(164,089)	(8
	(2,970,206)	**5,902,697**	**(1,389,604)**	**6,**
Cash generated from operations	**5,972,411**	**9,679,367**	**8,290,215**	**10,**
Interest paid	(410,585)	(695,802)	(410,585)	(6
Income and social contribution taxes paid	(11,841)	-	(529,039)	(3
Net cash (used in) generated by operating activities	**5,549,985**	**8,983,565**	**7,350,591**	**9,**
Cash flows from investing activities				

Additions to PP&E and intangible assets and others	(5,673,471)	(6,105,205)	(5,894,024)	(6,2
Cash received from sale of PP&E items	3,883	18,267	3,883	
Cash paid for acquisition of companies	-	-	-	(2
Redemption of judicial deposits	2,701,127	49,816	2,704,974	
Dividends and interest on equity received	1,586,709	384,588	-	
Cash and cash equivalents by incorporation	-	-	-	
Others				
Net cash (used in) generated by investing activities	**(1,381,752)**	**(5,652,534)**	**(3,185,167)**	**(6,3**
<u>Cash flows from financing activities</u>				
Payment of loans, financing and debentures	(2,524,301)	(3,551,465)	(2,524,301)	(3,5
Loans and financing obtained	-	2,039,878	-	2
Received of derivative financial instruments	96,108	81,525	96,726	
Payment of derivative financial instruments	(68,297)	(140,470)	(71,209)	(1
Dividend and interest on equity paid	(2,003,224)	(1,304,161)	(2,003,224)	(1,3
Treasury shares	-	(32)	-	
Net cash (used in) generated by financing activities	**(4,499,714)**	**(2,874,725)**	**(4,502,008)**	**(2,8**
Increase (decrease) in cash and cash equivalents	**(331,481)**	**456,306**	**(336,584)**	
Cash and cash equivalents at the beginning of the year	**3,681,173**	**4,675,627**	**4,050,338**	**5,**
Cash and cash equivalents at the end of the year	**3,349,692**	**5,131,933**	**3,713,754**	**5,**

TELEFÔNICA BRASIL S.A.
Statements of Value Added
Nine-month periods ended September 30, 2018 and 2017

(In thousands in reais)

(A free translation of the original in Portuguese)

	Company		Consolidated	
	09.30.18	**09.30.17**	**09.30.18**	**09.30.17**
Revenues	**42,171,479**	**41,620,108**	**46,400,252**	**44,297,292**
Sale of goods and services	38,064,521	41,795,634	43,312,730	44,515,392
Other revenues	5,118,854	862,151	4,256,458	890,825
Impairment losses of trade accounts receivable	(1,011,896)	(1,037,677)	(1,168,936)	(1,108,925)
Inputs acquired from third parties	**(13,755,316)**	**(14,180,624)**	**(15,034,545)**	**(15,039,541)**
Cost of goods and products sold and services rendered	(7,224,505)	(7,066,689)	(8,265,479)	(7,913,642)
Materials, electric energy, third-party services and other expenses	(6,557,818)	(7,111,989)	(6,797,691)	(7,120,995)
Loss/recovery of assets	27,007	(1,946)	28,625	(4,904)
Gross value added	**28,416,163**	**27,439,484**	**31,365,707**	**29,257,751**
Withholdings	**(6,019,692)**	**(5,842,396)**	**(6,045,916)**	**(5,862,808)**
Depreciation and amortization	(6,019,692)	(5,842,396)	(6,045,916)	(5,862,808)
Net value added produced	**22,396,471**	**21,597,088**	**25,319,791**	**23,394,943**
Value added received in transfer	**4,975,504**	**2,508,015**	**3,694,597**	**1,514,715**
Equity pickup	1,384,419	1,079,141	(4,914)	1,362
Financial income	3,591,085	1,428,874	3,699,511	1,513,353
Total undistributed value added	**27,371,975**	**24,105,103**	**29,014,388**	**24,909,658**
Distribution of value added	**(27,371,975)**	**(24,105,103)**	**(29,014,388)**	**(24,909,658)**
	(3,008,584)	(2,880,051)	(3,397,590)	(3,043,893)

Personnel,social charges and benefits				
Direct compensation	(2,110,497)	(1,944,017)	(2,348,845)	(2,048,350)
Benefits	(773,405)	(788,846)	(903,007)	(840,043)
Government Severance Indemnity Fund for Employees (FGTS)	(124,682)	(147,188)	(145,738)	(155,500)
Taxes, charges and contributions	(13,038,418)	(13,827,152)	(14,250,182)	(14,447,799)
Federal	(5,187,002)	(3,857,898)	(6,292,373)	(4,447,204)
State	(7,730,243)	(9,905,574)	(7,748,615)	(9,917,500)
Local	(121,173)	(63,680)	(209,194)	(83,095)
Debt remuneration	(3,883,393)	(4,306,065)	(3,925,036)	(4,326,131)
Interest	(1,565,295)	(2,174,890)	(1,585,883)	(2,187,663)
Rental	(2,318,098)	(2,131,175)	(2,339,153)	(2,138,468)
Equity remuneration	(7,441,580)	(3,091,835)	(7,441,580)	(3,091,835)
Retained profit	(7,441,580)	(3,091,835)	(7,441,580)	(3,091,835)

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(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 the Telefónica Group (“Group”), with headquarters in Spain and present in several countries of Europe and Latin America.

At September 30, 2018 and December 31, 2017, Telefónica S.A. (“Telefónica”), the Group holding company, held total direct and indirect interest in the Company of 73.58% (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 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, 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, 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 information on a summary of the authorizations for the use of radiofrequency bands for SMP granted to the Company is the same as in Note 1b) Operations, as disclosed in the financial statements for the year ended December 31, 2017.

c) Acquisition of a Wholly-Owned Subsidiary - 2017

The information on the acquisition process of Terra Networks Brasil SA ("Terra Networks") by Telefônica Data SA ("TData"), a wholly owned subsidiary of the Company, occurred on July 3, 2017, is the same as in Note 1.c .1) Acquisition of Company by Integral Subsidiary - 2017, disclosed in the financial statements for the year ended December 31, 2017.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

2) BASIS OF PREPARATION AND PRESENTATION OF THE QUARTERLY FINANCIAL STATEMENTS

a) Statement of compliance

The condensed individual and consolidated interim financial information has been prepared and is being presented in accordance with technical pronouncement CPC 21 (R1) Interim Statement and with the international standard IAS 34 Interim Financial Reporting.

All significant information in the quarterly financial statements, and solely such information, is disclosed and corresponds to that used by Company management for administration purposes.

b) Basis of preparation and presentation

The Company's quarterly financial statements for the nine-month period ended September 30, 2018 are presented in thousands of *Reais* (unless otherwise stated), which is the functional currency of the Company.

These quarterly financial statements compare the quarters ended September 30, 2018 and 2017, except for the balance sheets, that compare the positions as at September 30, 2018 and December 31, 2017.

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

The Board of Directors authorized the issue of these individual and consolidated financial statements at the meeting held on October 26, 2018.

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 on a consolidated basis, the Company and subsidiaries operate in a single operating segment, namely the provision of telecommunications services.

The information in the notes to the financial statements that did not significantly change or present irrelevant disclosures as compared to December 31, 2017 were not fully repeated in these quarterly financial statements. However, the Company selected and included information to explain the main events and transactions occurring during the nine-month period ended September 30, 2018, so that the changes in the Company's financial position and performance can be understood.

In this context, the Company indicates below the reference to the notes disclosed in the annual financial statements as at December 31, 2017 and not fully repeated in these quarterly financial statements:

- Note 1 - Operations
- Note 2 - Basis of Preparation and Presentation of Financial Statements
- Note 3 - Summary of Significant Accounting Practices
- Note 13 - Intangible Assets, Net
- Note 22 - Equity
- Note 29 - Share-Based Payment Plans
- Note 30 – Pension Plans and Other Post-Employment Benefits

Page 11

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

The quarterly financial statements were prepared in accordance with the principles, practices and accounting criteria consistent with those adopted in the preparation of the financial statements for the fiscal year ended December 31, 2017 (Note 3) Summary of Significant Accounting Practices) and should be analyzed in conjunction with these Financial statements, except for the changes required by the new pronouncements, interpretations and amendments, which came into effect as of January 1, 2018, as described below:

Standards and amendments	
IFRS 9	Financial Instruments
IFRS15	Revenue from Contracts with Customers
Clarifications to IFRS 15	Revenue from Contracts with Customers , issued on April 12, 2016
Amendments to IFRS 2	Classication and Valuation of Share Based Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 40	Transfers of Investiment Property
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Improvements to IFRS Standards	2014-2016 Cycle

The adoption of many of these standards, changes and interpretations did not have a significant impact on the financial position of the Company and its subsidiaries in the initial period of application. However, for the IFRS 9 and IFRS 15, there was a significant impact on the consolidated financial position at the time of its adoption and prospectively.

IFRS 9 Financial Instruments

IFRS 9 simplified the current measurement model for financial assets and established three main categories: (i) amortised cost; (ii) fair value through profit or loss; and (iii) 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 were 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.

IFRS 9 introduced a new model for impairment losses on financial assets, i.e. the expected credit loss model. The Company applied the simplified approach and recorded lifetime expected losses on all trade receivables. Consequently, the application of the new requirements led to an acceleration in the recognition of impairment losses on its financial assets, mainly trade receivables.

IFRS 9 introduced a new and less restrictive hedge accounting model, requiring an economic relationship between the hedged item and the hedging instrument and that the hedge ratio be the same as that applied by the entity for risk management, criteria for documenting hedge relationships.

The main changes are related to the 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.

From the analysis performed on the transactions of the 2017 financial year, the Company recognized on January 1, 2018, a decrease of 364 million reais in retained earnings, before deferred taxes, as a result of the increase in the bad debt provision balance on receivables from customers.

In addition to the effects on provisions for customer receivables defaults mentioned above, the adoption of IFRS 9 had impacts on the classification and measurement of financial assets and liabilities, as presented in the table below.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

	Classification by category	
	Classification in accordance with IAS 39	Classification in accordance with IFRS 9
Financial Assets		
Short-term investments (Cash equivalents)	Amortized cost	Measured at fair value through profit or loss
Trade accounts receivable	Loans and receivables	Amortized cost
Derivative transactions	Hedges (economic)	Measured at fair value through comprehensive income
Short-term investments pledged as collateral	Amortized cost	Measured at fair value through profit or loss
Financial Liabilities		
Derivative transactions	Hedges (economic)	Measured at fair value through comprehensive income

The complete information on the Company's financial assets and financial liabilities is disclosed in note 30 of these ITRs.

<u>IFRS 15 Revenues from Contracts with Customers</u>

With the adoption of IFRS 15, for bundled packages that combine multiple wireline, wireless, data, internet or television goods or services, the total revenue is now 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. Consequently, when bundles include a discount on equipment, there is an increase in revenues recognized from the sale of handsets and other equipment, 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 is recognised as a *contract asset* in the statement of financial position.

All incremental costs to obtain a contract (sales commissions and other acquisition costs of third parties) are accounted for as prepaid expenses (assets) and amortized over the same period as the revenue associated with that asset. Similarly, certain contract fulfillment costs are also deferred to the extent that they relate to performance obligations that are satisfied over time.

Revenue from the sale of handsets to dealers is accounted for at the time of delivery and not at the time of sale to the final customer.

Certain changes of the contract have been accounted for as a retrospective change (i.e. as a continuation of the original contract), while other modifications are to be considered prospectively as separate contracts, such as the original contract end and the creation of a new one.

The Company adopted the retrospective method modified with the cumulative effect of the initial application recognized as an adjustment to the opening balance of retained earnings on the date of the initial adoption. Therefore, comparative amounts of previous periods will not be restated. To facilitate the understanding and comparability of information, the Company discloses in Note 33 the consolidated income statement for the nine-month period ended September 30, 2018, excluding the effects of adopting IFRS 15.

The main practical expedients adopted by the Company were: (i) completed contracts: the standard was not retrospectively applied to those contracts that are completed at January 1, 2018; (ii) portfolio approach: the requirements of the standard have been applied for 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; (iii) financial component: it was not considered significant when the period between the moment when the promised product or service is transferred to a customer and the moment when the customer pays for that product or service is one year or less.; and (iv) 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.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

The process of implementing the new requirements involved 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 entailed 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 2017 financial year, considering commercial offers as well as the volume of contracts affected, the Company recognized on January 1, 2018 an increase in retained earnings of 156 million reais, before deferred taxes, referring to first-time recognition of contract assets that lead to the early recognition of revenue from the sale of goods and the activation and deferral of incremental costs related to obtaining contracts and contract fulfilment costs that result in the subsequent recognition of customer acquisition costs and other sales.

The following table shows the changes in contractual assets and liabilities and incremental costs of the Company (excluding the effects of sales and income taxes) for the nine-month period ended September 30, 2018.

	Contract assets (1)			Contractual liabilities (3)		
	Contract assets, gross	Provision for losses	Contract assets, net	Contractual liabilities	Reclassification (Note 19)	Contractu liabilit
Initial adoption on 01.01.18	**193,675**	**(33,196)**	**160,479**	**(178,897)**	**-**	**(178,89**
Reclassification on 01.01.18	**-**	**-**	**-**	**-**	**(383,688)**	**(383,68**
Additions	460,903	(7,523)	453,380	(162,138)	(5,353,375)	(5,515,51
Write-offs, net	(417,941)	-	(417,941)	152,059	5,388,551	5,540,6
Balances as of 09.30.18	**236,637**	**(40,719)**	**195,918**	**(188,976)**	**(348,512)**	**(537,48**
Current	236,637	(40,719)	195,918	(27,211)	(332,764)	(359,97
Non-current	-	-	-	(161,765)	(15,748)	(177,51

The amounts in the above table are classified in the balance sheets as follows: (1) Accounts receivable (Note 4); (2) Prepaid expenses (Note 9); and (3) Deferred income (Note 19).

New IFRS pronouncements, issues, amendments and interpretations of the IASB, applicable to the CPC

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

Standards and amendments		**Mandatory application: annual periods beginning on or after**
Improvements to IFRS Standards	2015-2017 Cycle	January 1, 2019
IFRS 16	Leases	January 1, 2019
IFRIC23	Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation	January 1, 2019
Amendments to IAS 28	Long-term Interest in associates and Joint Ventures	January 1, 2019
Amendments to IFRS 10 and IAS 28	Sale or Contribuition of Assets between na Investidor and its Associate or Joint Venture	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021

Based on the analyses made to date, the Company estimates that the adoption of these standards, amendments and interpretations will not have a significant impact on the consolidated quarterly financial statements in the initial period of adoption. However, for IFRS 16 - Leases are expected to have a significant impact on the consolidated quarterly financial statements at the time of their adoption and prospectively.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

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 financial statement.

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, 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 the 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.

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 31 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 hand, the Company's Financial Statements will include broader disclosures with relevant information regarding lease contracts.

c) <u>Basis of consolidation</u>

Interest held in subsidiaries or joint ventures 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 joint venture are measured under the equity method in the consolidated financial statements.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

At September 30, 2018 and December 31, 2017, the Company held the following 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	Tel
POP Internet Ltda ("POP") (2)	Wholly-owned subsidiary	100.00%	Brazil	
Aliança Atlântica Holding B.V. ("Aliança")	Joint venture	50.00%	Holland	tel
Companhia AIX de Participações ("AIX")	Joint venture	50.00%	Brazil	tel
Companhia ACT de Participações ("ACT")	Joint venture	50.00%	Brazil	te

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

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

On September 10, 2018, the Company informed the market that studies will be initiated regarding a possible merger of its wholly-owned subsidiary TData ("Merger"). If implemented, the Merger will not affect the Company's shareholding structure, since TData's shareholders' equity is already reflected in the Company's equity. The studies of the possible Merger will consider the necessary simplification of the corporate structure and concentration of the Company's services, as part of an ongoing process of simplification and promotion of an environment of convergence in the Company's relationship with its clients.

As soon as the studies are completed, they will be presented to the Board of Directors and, in the event of a decision regarding the effectiveness of the Merger, a Material Fact will be disclosed containing the details regarding the terms and conditions of the Merger (pursuant to CVM Instruction 565/15), as well as convening the relevant extraordinary shareholders' meeting of the Company to resolve on the Merger.

d) <u>Reclassification of comparative amounts</u>

The Company reclassified the amount of R$655,084 in the statements of cash flows for the nine-month period ended September 30, 2017, referring to the principal amount of the payment made on January 31, 2017 to the "Entidade Administradora do Processo de Redistribuição e Digitalização de Canais de TV e RTV" ("EAD") of the 2nd and 3rd installments of the auction of 700 MHz frequency bands for the provision of SMP. This reclassification was made between "Cash flow from operating activities - Other liabilities" and "Cash flow from investing activities - Acquisitions of property, plant and equipment and intangible assets".

3) CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	09/30/18	12/31/17	09/30/18	12/31/17
Cash and banks	113,099	114,556	113,070	117,799
Short-term investments	3,236,593	3,566,617	3,600,684	3,932,539
Total	**3,349,692**	**3,681,173**	**3,713,754**	**4,050,338**

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.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

4) TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	09/30/18	12/31/17	09/30/18	12/31/17
Billed amounts	6,234,751	6,033,164	6,993,486	6,753,621
Unbilled amounts	2,209,809	2,117,422	2,456,142	2,481,364
Interconnection amounts	877,302	835,085	898,661	859,819
Amounts from related parties (Note 27)	670,871	804,783	209,355	201,021
Gross accounts receivable	**9,992,733**	**9,790,454**	**10,557,644**	**10,295,825**
Estimated impairment losses	(1,252,152)	(1,209,369)	(1,556,056)	(1,433,471)
Total	**8,740,581**	**8,581,085**	**9,001,588**	**8,862,354**
Current	8,566,785	8,413,403	8,670,107	8,588,466
Non-current	173,796	167,682	331,481	273,888

Consolidated balances of non-current trade accounts receivable include:

- R$126,319 at September 30, 2018 (R$122,651 at December 31, 2017), relating to the business model of resale of goods to legal entities, receivable within 24 months. At September 30, 2018, the impact of the present-value adjustment was R$15,236 (R$16,011 at December 31, 2017).

- R$47,477, at September 30, 2018 (R$45,031, at December 31, 2017), 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 September 30, 2018, the impact of the present-value adjustment was R$13,088 (R$15,535 at December 31, 2017).

- R$157,685, at September 30, 2018 (R$106,206, at December 31, 2017), 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 September 30, 2018, the impact of the present-value adjustment was R$48,229 (R$33,614 at December 31, 2017).

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

	Consolidated	
	09/30/18	12/31/17
Nominal amount receivable	533,796	434,743
Deferred financial income	(48,229)	(33,614)
Present value of accounts receivable	**485,567**	**401,129**
Estimated impairment losses	(169,784)	(154,666)
Net amount receivable	**315,783**	**246,463**
Current	158,098	140,257
Non-current	157,685	106,206

Page 17

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

At September 30, 2018, 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	266,227	254,949
Falling due between one year and six years	267,569	230,618
Total	**533,796**	**485,567**

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:

	Company		Consolidated	
	09/30/18	12/31/17	09/30/18	12/31/17
Falling due	6,171,022	6,557,992	6,523,835	6,635,125
Overdue – 1 to 30 days	1,285,440	1,016,172	1,187,273	1,132,008
Overdue – 31 to 60 days				

	410,904	342,779	317,881	375,176
Overdue – 61 to 90 days	177,166	224,597	207,804	232,648
Overdue – 91 to 120 days	204,926	96,586	215,371	105,342
Overdue – over 120 days	491,123	342,959	549,424	382,055
Total	**8,740,581**	**8,581,085**	**9,001,588**	**8,862,354**

At September 30, 2018 and December 31, 2017, 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 12/31/16	**(1,004,512)**	**(1,399,895)**
Supplement to estimated losses, net of resersal (Note 24)	(1,037,677)	(1,108,925)
Write-off due to use	865,843	895,128
Business combinations (Note 1.c)	-	(8,719)
Balance at 09/30/17	**(1,176,346)**	**(1,622,411)**
Supplement to estimated losses, net of resersal	(367,408)	(372,090)
Write-off due to use	334,385	561,030
Balance at 12/31/17	**(1,209,369)**	**(1,433,471)**
Initial adoption IFRS 9 on 01.01.18	(332,127)	(364,456)
Supplement to estimated losses, net of resersal (Note 24)	(1,011,896)	(1,168,936)
Write-off due to use	1,301,240	1,410,807
Balance at 09/30/18	**(1,252,152)**	**(1,556,056)**

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

5) INVENTORIES

	Company		Consolidated	
	09/30/18	12/31/17	09/30/18	12/31/17
Materials for resale (1)	366,785	302,235	404,040	325,850
Materials for consumption	88,107	55,448	89,411	57,740
Other inventories	7,911	7,822	7,911	7,822
Gross total	**462,803**	**365,505**	**501,362**	**391,412**
Estimated losses from impairment or obsolescence (2)	(40,867)	(40,794)	(42,049)	(42,657)
Total	**421,936**	**324,711**	**459,313**	**348,755**

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

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

6) INCOME AND SOCIAL CONTRIBUTION TAXES

a) Income and Social Contribution taxes recoverable

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

	Company		Consolidated	
	09/30/18	12/31/17	09/30/18	12/31/17
Income taxes recoverable	244,408	348,113	244,943	428,524
Social contribution taxes recoverable	28,441	53,146	28,621	77,011
Total	**272,849**	**401,259**	**273,564**	**505,535**

b) Income and Social Contribution taxes payable

	Consolidated	
	09/30/18	12/31/17
Income taxes payable	59,828	3,267
Social contribution taxes payable	22,634	1,212
Total	**82,462**	**4,479**

c) 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.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

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

	Company						
	Balances at 12/31/16	Income statement	Comprehensive income	Balances at 09/30/17	Income statement	Comprehensive income	Balances at 12/31/17
Deferred tax assets (liabilities)							
Income and social contribution taxes on tax losses (1)	**1,376**	**176,306**	**-**	**177,682**	**411,068**	**-**	**588,750**
Income and social contribution taxes on temporary differences (2)	**(90,071)**	**(907,363)**	**236**	**(997,198)**	**(356,828)**	**55,951**	**(1,298,075)**
Provisions for legal, labor, tax civil and regulatory contingencies	2,221,055	(6,770)	-	2,214,285	40,802	-	2,255,087
Trade accounts payable and other provisions	608,158	60,148	-	668,306	(80,012)	-	588,294
Customer portfolio and trademarks	313,091	(41,220)	-	271,871	(17,454)	-	254,417
Estimated losses on impairment of accounts receivable	341,535	58,424	-	399,959	11,228	-	411,187
	282,267	(73,195)	-	209,072	(9,638)	-	199,434

Estimated losses from modems and other P&E items								
Pension plans and other post-employment benefits	108,403	10,407	-	118,810	91	55,480	174,381	
Profit sharing	123,911	(33,565)	-	90,346	10,297	-	100,643	
Licenses	(1,420,556)	(162,247)	-	(1,582,803)	(54,083)	-	(1,636,886)	
Effects of goodwill generated in the merger of Vivo Part.	(864,320)	(5,461)	-	(869,781)	-	-	(869,781)	
Goodwill from Spanish and Navytree	(337,535)	-	-	(337,535)	-	-	(337,535)	
Goodwill from Vivo Part.	(1,005,120)	(125,402)	-	(1,130,522)	(41,801)	-	(1,172,323)	
Goodwill from GVT Part.	(522,228)	(522,228)	-	(1,044,456)	(174,077)	-	(1,218,533)	
Technological Innovation Law	(140,940)	30,612	-	(110,328)	12,795	-	(97,533)	
Property, plant and equipment of small value	-	-	-	-	-	-	-	
Income and social contribution taxes on other temporary differences (3)	202,208	(96,866)	236	105,578	(54,976)	471	51,073	
Total deferred tax assets (liabilities), non current	**(88,695)**	**(731,057)**	**236**	**(819,516)**	**54,240**	**55,951**	**(709,325)**	**(1**
Deferred tax assets	**4,425,658**			**4,530,418**			**4,916,768**	
Deferred tax liabilities	**(4,514,353)**			**(5,349,934)**			**(5,626,093)**	
Deferred tax assets (liabilities), net	**(88,695)**			**(819,516)**			**(709,325)**	
Represented in the balance sheet as follows:								
	-			**-**			**-**	

Deferred tax assets			
Deferred tax liabilities	**(88,695)**	**(819,516)**	**(709,325)**

						Consolidated		
	Balances at 12/31/16	Income statement	Comprehensive income	Business combination (Note 1 c)	Other	Balances at 09/30/17	Income statement	Comprehe in
Deferred tax assets (liabilities)								
Income and social contribution taxes on tax losses (1)	**14,071**	**303,726**	**-**	**69,451**	**-**	**387,248**	**406,685**	
Income and social contribution taxes on temporary differences (2)	**13,426**	**(904,422)**	**236**	**48,434**	**(87)**	**(842,413)**	**(347,394)**	**57**
Provisions for legal, labor, tax civil and regulatory contingencies	2,230,336	32,805	-	-	-	2,263,141	35,594	
Trade accounts payable and other provisions	677,123	51,661	-	-	-	728,784	(77,367)	
Estimated losses on impairment of accounts receivable	358,805	64,601	-	-	-	423,406	11,554	
Customer portfolio and trademarks	313,092	(41,220)	-	-	-	271,872	(17,454)	
Estimated losses from modems and other P&E items	284,677	(73,835)	-	-	-	210,842	(9,901)	
Pension plans and other post-employment benefits	108,419	10,407	-	-	-	118,826	(1,777)	57
Profit sharing	125,256	(32,391)	-	-	-	92,865	17,181	
Licenses	(1,420,556)	(162,247)	-	-	-	(1,582,803)	(54,083)	
	(864,320)	(5,461)	-	-	-	(869,781)	-	

Effects of goodwill generated in the acquisition of Vivo Part.								
Goodwill from Spanish and Navytree	(337,535)	-	-	-	-	(337,535)	-	
Goodwill from Vivo Part.	(1,005,120)	(125,402)	-	-	-	(1,130,522)	(41,801)	
Goodwill from GVTPart.	(522,228)	(522,228)	-	-	-	(1,044,456)	(174,077)	
Technological Innovation Law	(140,940)	30,612	-	-	-	(110,328)	12,795	
Property, plant and equipment of small value	-	-	-	-	-	-	-	
Income and social contribution taxes on other temporary differences (3)	206,417	(131,724)	236	48,434	(87)	123,276	(48,058)	
Total deferred tax assets (liabilities), non current	**27,497**	**(600,696)**	**236**	**117,885**	**(87)**	**(455,165)**	**59,291**	**57**
Deferred tax assets	**4,541,952**					**4,894,879**		
Deferred tax liabilities	**(4,514,455)**					**(5,350,044)**		
Deferred tax assets (liabilities), net	**27,497**					**(455,165)**		
Represented in the balance sheet as follows:								
Deferred tax assets	**27,497**					**364,351**		
Deferred tax liabilities	**-**					**(819,516)**		

(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, occurance of impairment losses for trade accounts receivable, or realization of inventories, as well as upon reversal of other provisions.

(3) These refer to deferred taxes arising from other temporary differences, such as provision for loyalty program, accelerated accounting depreciation, estimated impairment losses on inventories, derivative financial instruments, deferred income, renewal of licenses subsidy on the sale of mobile phones, among others.

(4) Includes deferred social contribution tax amounts on the adoption of IFRS 9 and 15.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

At September 30, 2018, 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$12,715 (R$11,938 at December 31, 2017), as it is not probable that future taxable profits will be available for these subsidiaries to benefit from such tax credits.

d) Reconciliation of income tax and social contribution expense

The Company and its subsidiaries recognize income and social contribution taxes on a monthly basis, on an accrual basis, and pay the taxes based on estimates, in accordance with the trial balances for tax-reduction/tax-suspension purposes. Taxes calculated on profits until the month of the financial statements are recorded in liabilities or assets, as applicable.

Reconciliation of the reported tax expense and the amounts calculated by applying the statutory tax rate of 34% (income tax of 25% and social contribution tax of 9%) is shown in the table below for the nine-month periods ended September 30, 2018 and 2017.

	Company			
	Three-month periods ended		Nine-month periods ended	
	09.30.18	09.30.17	09.30.18	09.30.17
Income before taxes	3,263,789	1,411,579	8,942,617	3,776,670
Income and social contribution tax expenses, at the tax rate of 34%	(1,109,688)	(479,937)	(3,040,490)	(1,284,068)
Permanent differences				
Equity pickup, net of effects from interest on equity received (Note 11)	80,784	222,481	470,703	366,908
Unclaimed interest on equity	-	-	(14,426)	(10,319)
	(10,565)	(32,527)	(31,972)	(70,761)

Non-deductible expenses, gifts, incentives				
Tax benefit related to interest on equity allocated	952,000	103,700	1,088,000	316,200
Other (additions) exclusions	944	(2,580)	27,148	(2,795)
Total	**(86,525)**	**(188,863)**	**(1,501,037)**	**(684,835)**
Effective rate	2.7%	13.4%	16.8%	18.1%
Current income and social contribution taxes	32,978	48,385	(209)	46,222
Deferred income and social contribution taxes	(119,503)	(237,248)	(1,500,828)	(731,057)

				Consolidated
	Three-month periods ended		Nine-month periods ended	
	09.30.18	09.30.17	09.30.18	09.30.17
Income before taxes	3,394,095	1,544,449	9,679,819	4,132,616
Income and social contribution tax expenses, at the tax rate of 34%	(1,153,992)	(525,112)	(3,291,138)	(1,405,089)
<u>Permanent differences</u>				
Equity pickup, net of effects from interest on equity received (Note 11)	(1,884)	4	(1,671)	463
Unclaimed interest on equity	-	-	(14,426)	(10,319)
Temporary differences in subsidiaries	(8)	1,999	(8)	1,999
Non-deductible expenses, gifts, incentives	(12,904)	(32,527)	(50,958)	(72,695)
Deferred taxes recognized in subsidiaries on tax loss carryforwards, negative basis and temporary differences referring to prior years	-	132,080	-	132,080
Tax benefit related to interest on equity allocated	952,000	103,700	1,088,000	316,200
Other (additions) exclusions	(43)	(1,877)	31,962	(3,420)
Total	**(216,831)**	**(321,733)**	**(2,238,239)**	**(1,040,781)**
Effective rate	6.4%	20.8%	23.1%	25.2%
Current income and social contribution taxes	(80,176)	(196,389)	(743,589)	(440,085)
Deferred income and social contribution taxes	(136,655)	(125,344)	(1,494,650)	(600,696)

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

7) TAXES, CHARGES AND CONTRIBUTIONS RECOVERABLE

	Company		Consolidated	
	09/30/18	12/31/17	09/30/18	12/31/17
State VAT (ICMS) (1)	2,523,808	2,438,272	2,526,053	2,450,856
Withholding taxes and contributions (2)	91,997	212,264	97,937	238,355
PIS and COFINS	5,748,114	66,335	5,751,633	85,098
INSS, ISS and other taxes	20,792	8,232	21,759	27,431
Total	**8,384,711**	**2,725,103**	**8,397,382**	**2,801,740**
Current	3,244,830	1,984,999	3,257,501	2,058,455
Non-current	5,139,881	740,104	5,139,881	743,285

(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. Non-current consolidated amounts include credits arising from the acquisition of property and equipment of R$478,555 and R$423,588 on September 30, 2018 and December 31, 2017, respectively.

(2) 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.

The balances of September 30, 2018 include the tax credits of PIS and COFINS monetarily restated by SELIC, in the amounts of R$5,618,679, arising from the final judicial process on May 17, 2018 and August 28, 2018, in favor of the Company and its subsidiary TData, which recognized the right to deduct ICMS from the basis of calculation of PIS and COFINS contributions for the periods from September 2003 to June 2017 and July 2004 to July 2013, respectively (see notes 25 and 26).

The Internal Revenue Service filed a review, pursuant to Law 13,670/18, with the purpose of approving the PIS and COFINS credits resulting from the dispute that dealt with the exclusion of ICMS from the bases of these contributions.

The Company has made every effort to meet in a timely manner the requests of this audit procedure and thus continue compensating its referred tax credits.

The Company has other three lawsuits of the same nature in progress (including lawsuits of companies that have already been merged - GVT and Telemig), which are considered as contingent assets, which cover several periods between December 2001 and June 2017, whose ranges of values we estimate between R$1,700 million to R$2,200 million.

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.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

	Company		Consolidated	
	09/30/18	12/31/17	09/30/18	12/31/17
Judicial deposits				
Tax	1,821,260	4,074,517	1,982,144	4,230,917
Labor	520,802	864,022	538,542	885,338
Civil	1,173,907	1,203,297	1,175,900	1,205,807
Regulatory	206,487	200,627	208,711	200,627
Total	**3,722,456**	**6,342,463**	**3,905,297**	**6,522,689**
Garnishments	100,858	137,823	103,750	141,116
Total	**3,823,314**	**6,480,286**	**4,009,047**	**6,663,805**
Current	317,266	324,465	317,612	324,638
Non-current	3,506,048	6,155,821	3,691,435	6,339,167

On June 30, 2018, the Company recorded a write-off as loss of income for the period of R$232 million resulting from the conclusion of a judicial deposit reconciliation process, with the support of a specialized company, in which information was obtained from banks and the judiciary and reconciled with the accounting records of the Company.

On September 30, 2018, the Company and its subsidiaries had a number of tax-related judicial deposits in the consolidated amount of R$1,982,144 (R$4,230,917 at December 31, 2017). 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 at September 30, 2018 and December 31, 2107 of the tax judicial deposits (segregated and summarized by tribute).

	Consolidated	
	09/30/18	12/31/17
Contribution to Empresa Brasil de Comunicação (EBC)	-	1,238,068
Telecommunications Inspection Fund (FISTEL)	44,417	1,161,061
Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL)	546,839	518,474
Universal Telecommunication Services Fund (FUST)	496,781	484,649
Social Contribution Tax for Intervention in the Economic Order (CIDE)	276,760	270,612
State Value-Added Tax (ICMS)	303,165	273,264
Social Security, work accident insurance (SAT) and funds to third parties (INSS)	141,118	134,688
Withholding Income Tax (IRRF)	47,044	45,846
Contribution tax on gross revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS)	43,713	37,965
Other taxes, charges and contributions	82,307	66,290
Total	**1,982,144**	**4,230,917**

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

- <u>Contribution to Empresa Brasil de Comunicação (EBC)</u>

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.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

In the third quarter of 2018, the Company and TData had their accepted requests for conversion into income of the amounts deposited in court in the amount of R$1,378,170, with the maintenance of the discussion in progress. As a result, the Company and TData made the write-off of judicial deposits against the provisioned amounts (note 19).

- 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 licenses.

In the second quarter of 2018, the judicial discussion regarding the exclusion of the calculation basis of the Installation Inspection Fee ("TFI") and Inspection and Operation Fee ("TFF") of mobile (cellular) stations that are not owned by the Company was unfavorable to the Company after it withdrew its appeal. Consequently, the amounts of R$1,126,810 deposited judicially were handed over to ANATEL.

9) PREPAID EXPENSES

	Company		Consolidated	
	09/30/18	12/31/17	09/30/18	12/31/17
Fistel Fee (1)	268,295	-	268,295	-
Advertising and publicity	100,732	335,700	100,732	336,295
Insurance	33,991	36,672	34,265	36,941
Rental	42,728	29,713	42,728	29,713
Software and networks maintenance	42,729	7,422	47,001	12,375

Incremental costs - IFRS 15 (2)	231,566	-	231,566	-
Taxes, financial charges, personal and other	97,321	37,475	112,925	54,231
Total	**817,362**	**446,982**	**837,512**	**469,555**
Current	698,575	425,298	714,710	446,439
Non-current	118,787	21,684	122,802	23,116

(1) Refers to the remaining portion of the Inspection and Operation Fee amounts paid in March and April of 2018, based on the 2017 fiscal year, which will be amortized to the result until the end of the year.

(2) Refers to the incremental costs arising from the adoption of IFRS 15 (Note 2.b).

10) OTHER ASSETS

	Company		Consolidated	
	09/30/18	12/31/17	09/30/18	12/31/17
Advances to employees and suppliers	88,087	53,103	97,466	58,456
Related-party receivables (Note 27)	245,569	557,211	140,268	166,733
Receivables from suppliers	93,832	114,015	93,837	114,015
Surplus from post-employment benefit plans (Note 29)	10,007	9,616	10,242	9,833
Other amounts receivable	41,805	54,282	43,026	61,295
Total	**479,300**	**788,227**	**384,839**	**410,332**
Current	432,962	701,882	337,673	321,397
Non-current	46,338	86,345	47,166	88,935

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

11) INVESTMENTS

a) Information on investees

The information related to subsidiaries and joint ventures entities is the same as in Note 11) Investments, as disclosed in the financial statements for the fiscal year ended December 31, 2017.

The following is a summary of the relevant financial data of the investees in which the Company has a direct interest.

	09/30/18					12/3	
	Consolidated wholly-owned subsidiaries		Joint ventures			Consolidated wholly-owned subsidiaries	
	TData	POP	Aliança	Cia AIX	Cia ACT	TData	POP
Equity interest	**100.00%**	**100.00%**	**50.00%**	**50.00%**	**50.00%**	**100.00%**	**100.00%**
Summary of balance sheets:							
Current assets	2,494,140	47,542	195,758	26,742	20	2,928,721	33,566
Non-current assets	800,838	52,481	-	12,171	-	749,694	52,761
Total assets	**3,294,978**	**100,023**	**195,758**	**38,913**	**20**	**3,678,415**	**86,327**
Current liabilities	1,418,765	49,586	106	6,303	4	1,893,271	47,337
Non-current liabilities	184,778	-	-	15,390	-	185,794	24
Equity	1,691,435	50,437	195,652	17,220	16	1,599,350	38,966

Total liabilities and equity	**3,294,978**	**100,023**	**195,758**	**38,913**	**20**	**3,678,415**	**86,327**	**1**
Investment book value	**1,691,435**	**50,437**	**97,826**	**8,610**	**8**	**1,599,350**	**38,966**	

	Nine-month periods ended						
	09.30.18					09.3	
	Consolidated wholly-owned subsidiaries		Joint ventures			Consolidated wholly-owned subsidiaries	
Summary of Income Statements:	TData	POP	Aliança	Cia AIX	Cia ACT	TData	POP
Net operating income	4,846,284	23,243	-	34,175	62	2,515,027	22,014
Operating costs and expenses	(2,821,107)	(5,951)	(129)	(44,434)	(62)	(1,160,069)	(12,236)
Financial income (expenses), net	83,377	690	27	819	-	67,862	1,127
Income and social contribution taxes	(730,787)	(6,416)	-	(286)	-	(351,749)	(4,197)
Net income (loss) for the period	**1,377,767**	**11,566**	**(102)**	**(9,726)**	**-**	**1,071,071**	**6,708**
Equity pickup	**1,377,767**	**11,566**	**(51)**	**(4,863)**	**-**	**1,071,071**	**6,708**

b) Changes in investments

	TData Consolidated	POP Consolidated	Aliança	AIX	ACT	Goodwill (1)	Other investments (2)	**Total investments - Company**	E
Balances at 12/31/16	**1,079,464**	**29,888**	**72,510**	**11,886**	**7**	**212,058**	**1,342**	**1,407,155**	**(**
Equity pick-up	1,071,071	6,708	2	1,360	-	-	-	**1,079,141**	(
Equity transactions	(59,029)	-	-	-	-	-	-	**(59,029)**	
Dividends and interest on equity	(384,588)	-	-	-	-	-	-	**(384,588)**	
Other comprehensive income	-	-	6,493	-	-	-	400	**6,893**	
Balances at 09/30/17	**1,706,918**	**36,596**	**79,005**	**13,246**	**7**	**212,058**	**1,742**	**2,049,572**	**(**
Equity pick-up	221,755	2,370	(10)	227	1	-	-	**224,343**	
Dividends and interest on equity	(323,206)	-	-	-	-	-	-	**(323,206)**	
Other comprehensive income	(6,117)	-	4,746	-	-	-	(62)	**(1,433)**	
Balances at 12/31/17	**1,599,350**	**38,966**	**83,741**	**13,473**	**8**	**212,058**	**1,680**	**1,949,276**	**(**
Equity pick-up	1,377,767	11,566	(51)	(4,863)	-	-	-	**1,384,419**	(
Dividends and interest on equity	(1,263,503)	-	-	-	-	-	-	**(1,263,503)**	
	(22,179)	(95)		-	-	-	(408)	**(8,546)**	

Other comprehensive income			14,136						
Provision for losses on investments	-	-	-	-	-	-	(701)	**(701)**	
Balances at 09/30/18	**1,691,435**	**50,437**	**97,826**	**8,610**	**8**	**212,058**	**571**	**2,060,945**	**(**

(1) Goodwillfrom 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.

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

12) PROPERTY, PLANT AND EQUIPMENT

a) Breakdown, changes and depreciation rates

	Company							
	Switching and transmission equipment	Terminal equipment / modems	Infrastructure	Land	Other P&E	Estimated losses (1)	Assets and facilities under construction	To
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 12/31/16	**22,231,625**	**2,581,179**	**3,715,494**	**315,719**	**778,048**	**(485,386)**	**2,700,870**	**31,837,5**
Additions	26,974	93,740	59,964	550	157,492	(30,317)	4,141,241	4,449,6
Write-offs, net	(71,969)	(5,740)	(6,481)	(1,914)	(1,842)	63,880	(12,832)	(36,8
Net transfers	2,532,112	1,003,391	398,917	-	3,834	132,579	(4,063,776)	7,0
Depreciation (Note 24)	(2,231,790)	(1,049,402)	(407,043)	-	(236,992)	-	-	(3,925,22
Balance at 09/30/17	**22,486,952**	**2,623,168**	**3,760,851**	**314,355**	**700,540**	**(319,244)**	**2,765,503**	**32,332,1**
Additions	16,023	47,392	31,196	-	81,497	(6,961)	1,921,411	2,090,5

Write-offs, net	(16,795)	(1,862)	(210)	(2)	(729)	98,344	(4,695)	74,0
Net transfers	1,102,181	468,040	220,091	-	11,619	(1)	(1,828,196)	(26,26
Depreciation	(779,388)	(417,057)	(134,246)	-	(27,245)	-	-	(1,357,93
Balance at 12/31/17	**22,808,973**	**2,719,681**	**3,877,682**	**314,353**	**765,682**	**(227,862)**	**2,854,023**	**33,112,5**
Additions	10,092	110,362	58,795	550	100,931	(8,565)	4,863,234	5,135,3
Write-offs, net	(16,941)	(236)	(7,385)	-	(1,639)	18,352	(21,582)	(29,43
Net transfers	3,866,505	402,320	293,151	-	92,639	-	(4,703,145)	(48,53
Depreciation (Note 24)	(2,426,082)	(1,047,136)	(430,341)	-	(229,131)	-	-	(4,132,69
Balance at 09/30/18	**24,242,547**	**2,184,991**	**3,791,902**	**314,903**	**728,482**	**(218,075)**	**2,992,530**	**34,037,2**
At 12/31/17								
Cost	74,092,109	16,797,604	15,628,384	314,353	4,404,945	(227,862)	2,854,023	113,863,5
Accumulated depreciation	(51,283,136)	(14,077,923)	(11,750,702)	-	(3,639,263)	-	-	(80,751,02
Total	**22,808,973**	**2,719,681**	**3,877,682**	**314,353**	**765,682**	**(227,862)**	**2,854,023**	**33,112,5**
At 09/30/18								
Cost	77,827,871	17,139,414	15,876,668	314,903	4,590,915	(218,075)	2,992,530	118,524,2
Accumulated depreciation	(53,585,324)	(14,954,423)	(12,084,766)	-	(3,862,433)	-	-	(84,486,94
Total	**24,242,547**	**2,184,991**	**3,791,902**	**314,903**	**728,482**	**(218,075)**	**2,992,530**	**34,037,2**

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

								Consolida
	Switching and transmission equipment	Terminal equipment / modems	Infrastructure	Land	Other P&E	Estimated losses (1)	Assets and facilities under construction	T
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 12/31/16	**22,231,874**	**2,588,307**	**3,725,207**	**315,719**	**819,356**	**(485,575)**	**2,730,030**	**31,924,**
Additions	26,974	93,740	59,964	550	168,027	(30,399)	4,141,825	4,460,
Write-offs, net	(71,969)	(5,740)	(6,757)	(1,914)	(1,793)	63,961	(13,386)	(37,5
Net transfers	2,532,112	1,003,391	398,917	-	22,470	132,579	(4,082,412)	7,
Depreciation (Note 24)	(2,231,876)	(1,051,483)	(409,354)	-	(252,353)	-	-	(3,945,0
Business Combination (Note 1.c)	-	-	1,342	-	4,888	-	817	7,
Balance at 09/30/17	**22,487,115**	**2,628,215**	**3,769,319**	**314,355**	**760,595**	**(319,434)**	**2,776,874**	**32,417,**
Additions	16,025	47,392	31,196	-	91,593	(6,975)	1,943,662	2,122,
Write-offs, net	(16,797)	(1,862)	(209)	(2)	(729)	98,358	(5,511)	73,
Net transfers	1,102,181	468,040	220,091	-	11,623	(1)	(1,828,200)	(26,2

Depreciation	(779,415)	(417,453)	(135,100)	-	(32,630)	-	-	(1,364,5
Balance at 12/31/17	**22,809,109**	**2,724,332**	**3,885,297**	**314,353**	**830,452**	**(228,052)**	**2,886,825**	**33,222,3**
Additions	10,092	110,852	58,795	550	126,015	(8,565)	4,849,348	5,147,(
Write-offs, net	(16,939)	(236)	(7,513)	-	(1,938)	18,455	(21,582)	(29,7
Net transfers	3,866,505	402,320	293,890	-	91,838	-	(4,703,157)	(48,6
Depreciation (Note 24)	(2,426,138)	(1,047,754)	(432,850)	-	(248,906)	-	-	(4,155,6
Balance at 09/30/18	**24,242,629**	**2,189,514**	**3,797,619**	**314,903**	**797,461**	**(218,162)**	**3,011,434**	**34,135,3**
At 12.31.17								
Cost	74,100,056	16,845,903	15,728,808	314,353	4,687,395	(228,052)	2,886,825	114,335,2
Accumulated depreciation	(51,290,947)	(14,121,571)	(11,843,511)	-	(3,856,943)	-	-	(81,112,9
Total	**22,809,109**	**2,724,332**	**3,885,297**	**314,353**	**830,452**	**(228,052)**	**2,886,825**	**33,222,3**
At 09.30.18								
Cost	77,835,758	17,187,711	15,976,791	314,903	4,896,051	(218,162)	3,011,434	119,004,4
Accumulated depreciation	(53,593,129)	(14,998,197)	(12,179,172)	-	(4,098,590)	-	-	(84,869,0
Total	**24,242,629**	**2,189,514**	**3,797,619**	**314,903**	**797,461**	**(218,162)**	**3,011,434**	**34,135,3**

(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.

b) Property and equipment items pledged in guarantee

At September 30, 2018, the Company had consolidated amounts of property and equipment items pledged in guarantee for lawsuits, amounting to R$156,375 (R$176,591 at December 31, 2017).

c) 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 September 30, 2018, estimated residual value of reversible assets was R$8,685,750 (R$8,763,355 at December 31, 2017), which comprised switching and transmission equipment and public use terminals, external network equipment, energy, system and operational support equipment.

d) <u>Finance lease</u>

At September 30, 2018, classes of switching and transmission equipment, infrastructure and other assets included the net residual amounts of R$271,418 (R$280,103 as at December 31, 2017), in which the Company is a lessee of financial leasing operations.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

13) INTANGIBLE ASSETS

a) Breakdown, changes and amortization rates

	Company							
	Indefinite useful life	Finite useful life						
	Goodwill (1)	Software	Customer portfolio	Trademarks	Licenses	Other intangible assets	Estimated losses for software	Software under development
Annual amortization rate (%)		**20.00**	**11.76**	**5.13**	**3.60 to 6.67**	**20.00**		
Balances and changes:								
Balance at 12/31/16	**22,850,363**	**2,693,207**	**2,561,220**	**1,157,820**	**14,897,968**	**50,698**	**(4,581)**	**63,425**
Additions	-	186,591	-	-	-	179	-	655,012
Write-offs, net	-	(7,428)	-	-	-	-	4,052	-
Net transfers	-	454,824	-	-	-	(24,265)	31	(437,647)
Amortization (Note 24)	-	(709,686)	(444,960)	(63,154)	(696,272)	(4,364)	-	-
Balance at 09/30/17	**22,850,363**	**2,617,508**	**2,116,260**	**1,094,666**	**14,201,696**	**22,248**	**(498)**	**280,790**
Additions	-	74,186	-	-	-	28	-	445,773

Write-offs, net	-	3	-	-	-	-	(1)	-
Net transfers	-	246,721	-	-	-	(32)	-	(220,423)
Amortization	-	(234,018)	(137,397)	(21,051)	(232,090)	(1,296)	-	-
Balance at 12/31/17	**22,850,363**	**2,704,400**	**1,978,863**	**1,073,615**	**13,969,606**	**20,948**	**(499)**	**506,140**
Additions	-	249,825	-	-	-	-	-	668,707
Write-offs, net	-	(14)	-	-	-	-	-	-
Net transfers	-	357,981	-	-	-	-	-	(309,451)
Amortization (Note 24)	-	(718,507)	(412,191)	(63,154)	(690,058)	(3,092)	-	-
Balance at 09/30/18	**22,850,363**	**2,593,685**	**1,566,672**	**1,010,461**	**13,279,548**	**17,856**	**(499)**	**865,396**
At 12/31/17								
Cost	22,850,363	14,966,763	4,513,278	1,658,897	20,237,572	238,193	(499)	506,140
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**	**(499)**	**506,140**
At 09/30/18								
Cost	22,850,363	15,565,460	4,513,278	1,658,897	20,237,572	238,193	(499)	865,396
Accumulated amortization	-	(12,971,775)	(2,946,606)	(648,436)	(6,958,024)	(220,337)	-	-
Total	**22,850,363**	**2,593,685**	**1,566,672**	**1,010,461**	**13,279,548**	**17,856**	**(499)**	**865,396**

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

	Consolidated							
	Indefinite useful life	Finite useful life						
	Goodwill (1)	Software	Customer portfolio	Trademarks	Licenses	Other intangible assets	Estimated losses for software	Software under development
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**		
Balances and changes:								
Balance at 12/31/16	**23,062,421**	**2,694,521**	**2,561,220**	**1,157,820**	**14,897,968**	**50,702**	**(4,581)**	**63,425**
Additions	-	187,368	-	-	-	179	-	655,012
Write-offs, net	-	(7,428)	-	-	-	-	4,052	-
Net transfers	-	454,824	-	-	-	(24,265)	31	(437,647)
Amortization (Note 24)	-	(710,256)	(444,960)	(63,154)	(696,272)	(4,367)	-	-
Business Combination (Note 1.c)	-	530	-	-	-	-	-	-
Balance at 09/30/17	**23,062,421**	**2,619,559**	**2,116,260**	**1,094,666**	**14,201,696**	**22,249**	**(498)**	**280,790**
Additions	-	89,022	-	-	-	28	-	445,773
Write-offs, net	-	1	-	-	-	-	(1)	-
	-	246,721	-	-	-	(32)	-	(220,423)

Net transfers								
Amortization	-	(234,497)	(137,397)	(21,051)	(232,090)	(1,293)	-	-
Balance at 12/31/17	**23,062,421**	**2,720,806**	**1,978,863**	**1,073,615**	**13,969,606**	**20,952**	**(499)**	**506,140**
Additions	-	255,554	-	-	-	-	-	668,707
Write-offs, net	-	(14)	-	-	-	-	-	-
Net transfers	-	357,981	-	-	-	74	-	(309,451)
Amortization (Note 24)	-	(721,773)	(412,191)	(63,154)	(690,058)	(3,092)	-	-
Balance at 09/30/18	**23,062,421**	**2,612,554**	**1,566,672**	**1,010,461**	**13,279,548**	**17,934**	**(499)**	**865,396**
At 12/31/17								
Cost	23,062,421	15,125,532	4,513,278	1,658,897	20,237,572	238,201	(499)	506,140
Accumulated amortization	-	(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**	**(499)**	**506,140**
At 09/30/18								
Cost	23,062,421	15,729,880	4,513,278	1,658,897	20,237,572	238,275	(499)	865,396
Accumulated amortization	-	(13,117,326)	(2,946,606)	(648,436)	(6,958,024)	(220,341)	-	-
Total	**23,062,421**	**2,612,554**	**1,566,672**	**1,010,461**	**13,279,548**	**17,934**	**(499)**	**865,396**

(1) Information on goodwill in the above tables is the same as in Note 13.b) Intangible - Goodwill, disclosed in the financial statements for the year ended December 31, 2017.

14) PERSONNEL, SOCIAL CHARGES AND BENEFITS

	Company		Consolidated	
	09/30/18	12/31/17	09/30/18	12/31/17
Salaries and wages	35,496	37,070	38,149	40,171
Social charges and benefits	470,367	354,467	529,078	399,229
Profit sharing	164,753	247,501	184,314	273,384
Share-based payment plans (Note 28)	31,793	31,567	34,984	33,880
Total	**702,409**	**670,605**	**786,525**	**746,664**

Current	687,651	648,957	769,869	723,380
Non-current	14,758	21,648	16,656	23,284

15) TRADE ACCOUNTS PAYABLE

	Company		Consolidated	
	09/30/18	12/31/17	09/30/18	12/31/17
Sundry suppliers (Opex, Capex, Services e Material)	6,757,267	6,380,614	7,185,505	6,683,503
Amounts payable (operators, cobilling)	656,369	183,250	221,563	187,976
Interconnection / interlink	295,884	224,777	295,884	224,777
Related parties (Note 27)	1,345,153	1,772,203	406,728	350,844
Total	**9,054,673**	**8,560,844**	**8,109,680**	**7,447,100**

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

16) TAXES, CHARGES AND CONTRIBUTIONS PAYABLE

	Company		Consolidated	
	09/30/18	12/31/17	09/30/18	12/31/17
ICMS	1,078,183	1,106,507	1,126,694	1,149,137
PIS and COFINS	411,086	385,501	485,166	419,589
Fust and Funttel	88,890	93,869	88,890	93,869
Fistel, ISS, CIDE and other taxes	87,637	102,327	115,509	113,689
Total	**1,665,796**	**1,688,204**	**1,816,259**	**1,776,284**
Current	1,649,084	1,669,741	1,779,952	1,726,836
Non-current	16,712	18,463	36,307	49,448

17) DIVIDENDS AND INTEREST ON EQUITY (IOE)

a) Dividends and interest on equity receivable

At December 31, 2017, the Company had R$323,206 to be received from TData.

	Company
Balance at 12/31/17	**323,206**
Supplementary dividends for 2017 of TData	963,503
Interim dividends for 2018 of TData	300,000
Receipt of dividends of TData	

	(1,586,709)
Balance at 09/30/18	**-**

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

b) <u>Dividends and interest on equity payable</u>

b.1) Breakdown:

	Company / Consolidated	
	09/30/18	12/31/17
Telefónica Latinoamérica Holding S.L.	1,209,350	505,750
Telefónica	1,456,247	609,003
SP Telecomunicações Participações	918,060	383,933
Telefónica Chile	2,559	1,070
Non-controlling interest	1,644,378	896,360
Total	**5,230,594**	**2,396,116**

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

b.2) Changes:

	Company/ Consolidated
Balance at 12/31/17	**2,396,116**
Supplementary dividends for 2017	2,191,864
Interim interest on equity (net of IRRF)	2,720,000
Unclaimed dividends and interest on equity	(76,520)
Payment of dividends and interest on equity	(2,003,224)
IRRF on shareholders exempt/immune from interest on equity	2,358
Balance at 09/30/18	**5,230,594**

On April 12, 2018, the Company's Ordinary General Meeting unanimously approved the proposal for the allocation of interest on equity and dividends for the year ended December 31, 2017. On April 23, 2018, the Company's Board of Executive Officers informed shareholders the dates for the payment of these interest on shareholders' equity and dividends, as follows:

(1) The amounts of IOE are calculated and stated net of Withholding Income Tax (IRRF). The immune shareholders received the full IOE amount, without withholding income tax at source.

(2) The gross and net values for the preferred shares are 10% higher than those attributed to each common share, as per article 7 of the Company's Articles of Incorporation.

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:

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

	Company					
	Provisions for contingencies					
	Labor	Tax	Civil	Regulatory	Contingent liabilities (PPA) (1)	Provision decommission
Balances at 12/31/16	**1,374,570**	**3,109,806**	**1,038,230**	**828,934**	**881,745**	**541,8**
Additions (reversal), net (Note 25)	209,282	144,776	353,563	20,216	(87,454)	
Other additions (reversal) (4)	-	100,252	(1,129)	-	-	14,9
Write-offs due to payment	(664,263)	(146,094)	(418,812)	(4,556)	-	
Write-offs due to taxes (3)	-	(66,027)	-	-	-	
Monetary restatement	116,148	307,422	94,765	78,838	45,347	11,3
Balances at 09/30/17	**1,035,737**	**3,450,135**	**1,066,617**	**923,432**	**839,638**	**568,0**
Additions (reversal), net	87,394	1,954	84,687	178,128	(1,776)	
Other additions (reversal) (4)	-	-	31	-	-	5,8
Write-offs due to payment	(196,435)	(12,689)	(129,709)	(2,317)	-	
Monetary restatement	27,623	35,500	25,809	4,549	7,934	7
Balances at 12/31/17	**954,319**	**3,474,900**	**1,047,435**	**1,103,792**	**845,796**	**574,7**
Additions (reversal), net (Note 25)	262,226	450,035	341,099	(45,555)	(24,129)	(7,4
Other additions (reversal) (4)	(104,504)	(2,402,509)	(11,554)	-	-	11,8
Write-offs due to payment	(429,076)	(31,393)	(442,665)	(117,000)	-	
Monetary restatement	99,812	398,366	109,280	31,273	(4,727)	13,5
Balances at 09/30/18	**782,777**	**1,889,399**	**1,043,595**	**972,510**	**816,940**	**592,5**
At 12/31/17						
Current	239,229	-	201,673	994,009	-	
Non-current	715,090	3,474,900	845,762	109,783	845,796	574,7
At 09/30/18						
Current	265,149	-	143,526	862,171	-	
Non-current	517,628	1,889,399	900,069	110,339	816,940	592,5

	Consolidated					
	Provisions for contingencies					
	Labor	Tax	Civil	Regulatory	Contingent liabilities	Provision decommission

					(PPA) (1)	
Balances at 12/31/16	**1,382,957**	**3,129,681**	**1,039,357**	**828,934**	**881,745**	**546,5**
Additions (reversal), net (Note 25)	210,238	152,768	354,886	20,216	(87,454)	
Other additions (reversal) (4)	(116)	100,252	(1,129)	-	-	14,9
Write-offs due to payment	(666,264)	(155,750)	(419,566)	(4,556)	-	
Write-offs due to taxes (3)	-	(66,027)	-	-	-	
Monetary restatement	117,040	311,947	95,073	78,838	45,347	11,3
Business combination (Note 1 c)	19,282	87,531	6,061	-	-	
Balances at 09/30/17	**1,063,137**	**3,560,402**	**1,074,682**	**923,432**	**839,638**	**572,8**
Additions (reversal), net	86,933	1,673	83,807	178,128	(1,776)	
Other additions (reversal) (4)	(376)	(6,656)	1,336	-	-	5,8
Write-offs due to payment	(199,392)	(12,657)	(132,362)	(2,317)	-	
Monetary restatement	30,294	36,446	28,414	4,549	7,934	7
Balances at 12/31/17	**980,596**	**3,579,208**	**1,055,877**	**1,103,792**	**845,796**	**579,4**
Additions (reversal), net (Note 25)	270,786	450,298	344,295	(45,555)	(24,129)	(7,4
Other additions (reversal) (4)	(99,582)	(2,402,612)	(13,099)	-	-	11,8
Write-offs due to payment	(438,559)	(31,941)	(444,774)	(117,000)	-	
Monetary restatement	102,294	400,735	110,096	31,273	(4,727)	13,5
Balances at 09/30/18	**815,535**	**1,995,688**	**1,052,395**	**972,510**	**816,940**	**597,3**
At 12/31/17						
Current	239,229	-	201,673	994,009	-	
Non-current	741,367	3,579,208	854,204	109,783	845,796	579,4
At 09/30/18						
Current	265,149	-	143,543	862,171	-	
Non-current	550,386	1,995,688	908,852	110,339	816,940	597,3

(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 when returning to the owners 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).

(4) Refers mainly to the amounts of inflows and losses carried out against judicial deposits (Note 8).

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

a) Labor provisions and contingencies

	Amounts involved			
	Company		Consolidated	
Nature/Degree of Risk	09/30/18	12/31/17	09/30/18	12/31/17
Provisions - probable losses	782,777	954,319	815,535	980,596
Possible losses	162,057	210,211	198,832	261,876

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 finalized an improvement work in calculating the estimate of the labor provision value for cases of solidarity with third parties, evolving from a calculation based on the historical average of payments to an assessment of the expected loss in an individualized way for each process, resulting in an increase in the provision of R$116 million.

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 a party to Public Civil Actions filed by the Labor Public Prosecutor's Office, whose objects relate essentially to determining the Company to cease hiring an interposed company to carry out the company's activities. In August 2018, most of the STF Ministers judged the legality of unrestricted outsourcing, including the end activity, safeguarding the subsidiary's responsibility of the service provider. However, it is expected that this decision will be published and possible foreclosure of a declaration to clarify the scope of the decision, including for cases that have already been settled, when the application of that decision will be assessed in each case where the subject is discussed. In view of these considerations, there are still no conditions to estimate amounts or possible losses for the Company.

b) Tax provisions and contingencies

	Amounts involved			
	Company		Consolidated	
Nature/Degree of Risk	09/30/18	12/31/17	09/30/18	12/31/17
Provisions - probable losses	1,889,399	3,474,900	1,995,688	3,579,208
Federal	433,077	420,128	516,886	502,153
State	968,612	231,667	968,612	231,998
Municipal	33,549	32,054	33,549	32,054
FUST, FISTEL and EBC	454,161	2,791,051	476,641	2,813,003
Possible losses	30,386,893	34,029,094	31,736,983	35,388,910
Federal	7,808,156	7,936,925	8,139,237	8,226,374
State	14,504,520	18,015,683	15,339,533	18,968,349
Municipal	601,816	542,084	608,289	548,014
FUST, FUNTTEL and FISTEL	7,472,401	7,534,402	7,649,924	7,646,173

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

b.1) Probable tax contingencies

Management and its legal counsel understand that losses are probable in the following federal, state, municipal and regulatory 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) withholding income tax 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.

At September 30, 2018, consolidated provisions totaled R$516,886 (R$502,153 at December 31, 2017).

State taxes

The Company and/or its subsidiaries are parties to administrative and judicial proceedings relating to: (i) disallowance of ICMS (VAT) credits; (ii) telecommunications services not subject; (iii) tax credit for challenges / disputes over telecommunication services not provided or wrongly charged (Agreement

39/01); (iv) rate difference; (v) rent of infrastructure necessary for internet (data) services; (vi) outflows of goods with prices lower than those of acquisition; and (vii) non-taxation of amounts granted as discounts to customers.

At September 30, 2018, consolidated provisions totaled R$968,612 (R$231,998 at December 31, 2017).

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: (a) equipment leasing services, non-core activities and supplementary activities; and (b) withholding on contractors' services.

At September 30, 2018, consolidated provisions totaled R$33,549 (R$32,054 at December 31, 2017).

FUST, FISTEL and EBC

The Company and/or subsidiaries have administrative and judicial discussions related to the non-inclusion of interconnection expenses and industrial exploitation of a dedicated line in the calculation basis of FUST.

In the second quarter of 2018, the discussion regarding the exclusion of the calculation basis of the Installation Inspection Fee ("TFI") and Inspection and Operation Fee ("TFF") of mobile (cellular) stations that are not owned by the Company was closed unfavorably to the Company and the amounts deposited judicially (Note 8) were handed over to ANATEL.

In the third quarter of 2018, the Company and TData had their accepted requests for conversion into income of the amounts deposited in court, relating to EBC rates, with the maintenance of the discussion in progress. As a result, the Company and TData made the write-downs of the amounts provisioned against the amounts deposited in court. (note 8).

At September 30, 2018, consolidated provisions totaled R$476,641 (R$2,813,003 at December 31, 2017).

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 and FISTEL), described below:

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

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 (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); (c) supply of meals to employees, withholding of 11% (assignment of workforce); and (d) Stock Options - requirement of social security contributions on amounts paid to employees under the stock option plan; (iii) withholding income tax and CIDE on the funds remitted abroad related to technical services and to administrative support and similar services, etc., and royalties; (iv) income and social contribution taxes: (a) disallowance of costs and sundry expenses not evidenced; and (b) 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.; (v) deduction of COFINS on swap operation losses; (vi) PIS and COFINS: (a) accrual basis versus cash basis; (b) levied on value-added services; and (c) monthly subscription services; (vii) income tax-related incentive investments FINOR, FINAN or FUNRES; (viii) ex-tariff, cancellation of the benefits under CAMEX Resolution No. 6, increase in the import duty from 4% to 28%; (ix) IPI levied on shipment of fixed access units from the Company's establishment; (x) Financial transaction tax (IOF) - required on loan transactions, intercompany loans and credit transactions; and (xi) operating expenses allegedly non-deductible and related to estimated losses on the recoverable value of accounts receivable.

At September 30, 2018, consolidated amounts involved totaled R$8,139,237 (R$8,226,374 at December 31, 2017).

State taxes

The Company and/or its subsidiaries are parties to various administrative and judicial proceedings, at the state level, related to ICMS, which are awaiting decisions in different court levels: (i) rental of movable property; (ii) international calls (DDI); (iii) reversal credit related to the acquisition of items of property, plant and equipment and payment in interstate transfers of property, plant and equipment between branches; (iv) reversal of previously unused credits; (v) service provided outside São Paulo state 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 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) own consumption; (xx) exemption of public bodies; (xxi) amounts given by way of discounts; (xxii) new tax register bookkeeping without prior authorization by tax authorities; (xxiii) advertising services; (xxiv) unmeasured services; and (xxv) monthly subscription, which is in the Federal Supreme Court ("STF") with declaration liens and the Company awaits the judgment of the STF on the request for modulation.

At September 30, 2018, consolidated amounts involved totaled R$15,339,533 (R$18,968,349 at December 31, 2017).

Municipal taxes

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

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) service tax (ISS) on: (a) non-core activity, value-added and supplementary services; (b) withholding at source; (c) call identification and mobile phone licensing services; (d) full-time services, provisions, returns and cancelled tax receipts; (e) data processing and antivirus congeners; (f) charge for use of mobile network and lease of infrastructure; (g) advertising services; (h) services provided by third parties; and (i) advisory services in corporate management provided by Telefónica Latino América Holding; (ii) property tax (IPTU); (iii) land use tax; and (iv) various municipal charges.

At September 30, 2018, consolidated amounts involved totaled R$608,289 (R$548,014 at December 31, 2017).

FUST, FUNTTEL and FISTEL

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.

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 September 30, 2018, consolidated amounts involved totaled R$4,487,812 (R$4,316,571 at December 31, 2017).

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 September 30, 2018, consolidated amounts involved totaled R$569,623 (R$493,867 at December 31, 2017).

Telecommunications Inspection Fund ("FISTEL")

Judicial actions for the collection of TFI on: (i) 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 (ii) extensions of the period of validity of the right to use radiofrequency associated with the operation of the telephone service personal mobile service.

At September 30, 2018, consolidated amounts involved totaled R$2,592,489 (R$2,835,735 at December 31, 2017).

c) Civil provisions and contingencies

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

	Amounts involved			
	Company		Consolidated	
Nature/Degree of Risk	09/30/18	12/31/17	09/30/18	12/31/17
Provisions - probable losses	1,043,595	1,047,435	1,052,395	1,055,877
Possible losses	3,513,127	2,840,894	3,529,070	2,858,796

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 September 30, 2018, consolidated provisions totaled R$322,855 (R$324,232 at December 31, 2017).

- 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 September 30, 2018, consolidated provisions totaled R$372,976 (R$296,169 at December 31, 2017).

- 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 September 30, 2018, consolidated provisions totaled R$356,564 (R$435,476 at December 31, 2017).

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 September 30, 2018, the consolidated amount totaled R$3,499,218 (R$2,827,071 at December 31, 2017).

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

(In thousands of *Reais*, unless otherwise stated)

- 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 September 30, 2018, the amount was R$15,645 (R$17,518 at December 31, 2017).

- 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 September 30, 2018 and December 31, 2017, the amount was R$14,207.

- Intelectual 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 on 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. We brought a Special Appeal against the aforementioned judgment in order to recognize the active illegitimacy of Lune and determined the termination of the proceedings, and such appeal is awaiting judgment before the Superior Court of Justice ("STJ"). There is no way to determine at this time 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) <u>Regulatory provisions and contingencies</u>