

TELEFONICA BRASIL S.A.
Form 6-K
June 11, 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 June, 2018

Commission File Number: 001-14475

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

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

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

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

Form 20-F

Form 40-F

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

Yes

No

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

Yes

No

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TELEFÔNICA BRASIL S.A.

QUARTERLY INFORMATION

MARCH 31, 2018

(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders

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 March 31, 2018, comprising the balance sheet at that date and the statements of income and comprehensive income, changes in equity and cash flows for the quarter then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of the parent company interim accounting information in accordance with the accounting standard CPC 21 - "Interim Financial Reporting", of the Brazilian Accounting Pronouncements Committee (CPC), and of the consolidated interim accounting information in accordance with CPC 21 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 financial 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 did 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 parent company interim information

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

Conclusion on the consolidated interim information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 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

Statement of value added

We have also reviewed the parent company and consolidated statements of value added for the quarter ended March 31, 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, April 20, 2018

PricewaterhouseCoopers

Auditores Independentes

CRC 2SP000160/O-5

Estela Maris Vieira de Souza

TELEFÔNICA BRASIL S.A.**Balance Sheets****At March 31, 2018 and December 31, 2017****(In thousands of reais)**

| ASSETS | Note | Company | | Consolidated | |
|--|------|--------------------|--------------------|--------------------|--------------------|
| | | 03.31.18 | 12.31.17 | 03.31.18 | 12.31.17 |
| Current assets | | 17,637,738 | 16,668,039 | 17,910,377 | 16,731,666 |
| Cash and cash equivalents | 3 | 3,857,949 | 3,681,173 | 4,354,491 | 4,050,338 |
| Trade accounts receivable | 4 | 8,346,384 | 8,413,403 | 8,770,683 | 8,588,466 |
| Inventories | 5 | 486,209 | 324,711 | 510,641 | 348,755 |
| Income and social contribution taxes recoverable | 6 | 568,110 | 401,259 | 678,292 | 505,535 |
| Taxes, charges and contributions recoverable | 7 | 1,834,695 | 1,984,999 | 1,894,829 | 2,058,455 |
| Judicial deposits and garnishments | 8 | 339,513 | 324,465 | 339,702 | 324,638 |
| Prepaid expenses | 9 | 888,066 | 425,298 | 912,036 | 446,439 |
| Dividends and interest on equity | 17 | 426,709 | 323,206 | - | - |
| Derivative financial instruments | 30 | 85,417 | 87,643 | 85,417 | 87,643 |
| Other assets | 10 | 804,686 | 701,882 | 364,286 | 321,397 |
| Non-current assets | | 84,766,654 | 85,495,114 | 84,370,767 | 84,651,169 |
| Long-term assets | | | | | |
| Short-term investments pledged as collateral | | 87,558 | 81,472 | 87,569 | 81,486 |
| Trade accounts receivable | 4 | 174,863 | 167,682 | 285,780 | 273,888 |
| Deferred taxes | 6 | - | - | 398,918 | 371,408 |
| Taxes, charges and contributions recoverable | 7 | 784,001 | 740,104 | 787,492 | 743,285 |
| Judicial deposits and garnishments | 8 | 6,204,217 | 6,155,821 | 6,388,828 | 6,339,167 |
| Prepaid expenses | 9 | 75,390 | 21,684 | 75,768 | 23,116 |
| Derivative financial instruments | 30 | 65,915 | 76,762 | 65,915 | 76,762 |
| Other assets | 10 | 78,496 | 86,345 | 80,697 | 88,935 |
| Investments | 11 | 1,534,127 | 1,949,276 | 102,167 | 98,902 |
| Property, plant and equipment | 12 | 33,007,854 | 33,112,532 | 33,113,946 | 33,222,316 |
| Intangible assets | 13 | 42,754,233 | 43,103,436 | 42,983,687 | 43,331,904 |
| TOTAL ASSETS | | 102,404,392 | 102,163,153 | 102,281,144 | 101,382,835 |

TELEFÔNICA BRASIL S.A.
Income Statements
Three-month periods ended March 31, 2018 and 2017

(In thousands of reais, except earnings per share)

| | | Company | | |
|---|-------------|----------------------------|----------------------------|----------------|
| | Note | 1st quarter of 2018 | 1st quarter of 2017 | 1st qua |
| Net operating revenue | 23 | 9,142,800 | 10,079,646 | |
| Cost of sales | 24 | (4,725,737) | (4,779,398) | |
| Gross profit | | 4,417,063 | 5,300,248 | |
| Operating income (expenses) | | (3,458,484) | (3,952,839) | |
| Selling expenses | 24 | (3,015,699) | (3,155,988) | |
| General and administrative expenses | 24 | (551,075) | (616,230) | |
| Other operating income | 25 | 317,793 | 114,191 | |
| Other operating expenses | 25 | (209,503) | (294,812) | |
| Operating income | | 958,579 | 1,347,409 | |
| Financial income | 26 | 250,230 | 525,624 | |
| Financial expenses | 26 | (445,299) | (839,254) | |
| Equity pickup | 11 | 567,928 | 161,858 | |
| Income before taxes | | 1,331,438 | 1,195,637 | |
| Income and social contribution taxes | 6 | (233,419) | (199,440) | |
| Net income for the period | | 1,098,019 | 996,197 | |
| Basic and diluted earnings per common share (in R\$) | 22 | 0.61 | 0.55 | |
| Basic and diluted earnings per preferred share (in R\$) | 22 | 0.67 | 0.61 | |

TELEFÔNICA BRASIL S.A.
Statements of Changes in Equity
Three-month periods ended March 31, 2018 and 2017
(In
thousands of
reais)

| | Capital | Capital reserves | | | Income reserves | | | Retained earnings |
|---|-------------------|--------------------------|------------------------|-----------------|------------------|-----------------------|-------------------------------------|-------------------|
| | | Special goodwill reserve | Other capital reserves | Treasury shares | Legal reserve | Tax incentive reserve | Expansion and modernization reserve | |
| Balances at December 31, 2016 | 63,571,416 | 63,074 | 1,297,297 | (87,790) | 1,907,905 | 17,069 | 550,000 | - |
| Unclaimed dividends and interest on equity | - | - | - | - | - | - | - | 67,540 |
| DIPJ adjustment - Tax incentives | - | - | - | - | - | 2,658 | - | (2,658) |
| Other comprehensive income | - | - | - | - | - | - | - | - |
| Net income for the period | - | - | - | - | - | - | - | 996,197 |
| Interim interest on equity | - | - | - | - | - | - | - | (530,000) |
| Balances at March 31, 2017 | 63,571,416 | 63,074 | 1,297,297 | (87,790) | 1,907,905 | 19,727 | 550,000 | 531,079 |
| Payment of additional dividend for 2016 | - | - | - | - | - | - | - | - |
| Unclaimed dividends and interest on equity | - | - | - | - | - | - | - | 34,238 |
| Repurchase of preferred shares | - | - | - | (32) | - | - | - | - |
| Preferred shares delivered referring to the | - | - | - | 2 | - | - | - | - |

| | | | | | | | | |
|--|-------------------|---------------|------------------|-----------------|------------------|---------------|----------------|----------------|
| judicial process of expansion plan DIPJ adjustment - Tax incentives | - | - | - | - | - | 8,157 | - | (8,157) |
| Other comprehensive income | - | - | - | - | - | - | - | (113,811) |
| Equity transactions (Note 1 c) | - | - | (59,029) | - | - | - | - | - |
| Net income for the period | - | - | - | - | - | - | - | 3,612,593 |
| Allocation of income: | | | | | | | | |
| Legal reserve | - | - | - | - | 230,439 | - | - | (230,439) |
| Interim interest on equity | - | - | - | - | - | - | - | (1,886,639) |
| Reversal of expansion and Modernization Reserve | - | - | - | - | - | - | (550,000) | 550,000 |
| Expansion and Modernization Reserve | - | - | - | - | - | - | 297,000 | (297,000) |
| Additional proposed dividends | - | - | - | - | - | - | - | (2,191,864) |
| Balances at December 31, 2017 | 63,571,416 | 63,074 | 1,238,268 | (87,820) | 2,138,344 | 27,884 | 297,000 | - |
| Effects of the initial adoption of IFRS 9 and 15, net of taxes | - | - | - | - | - | - | - | (138,663) |
| DIPJ adjustment - Tax incentives | - | - | - | - | - | 2,767 | - | (2,767) |
| Other comprehensive income | - | - | - | - | - | - | - | - |
| Net income for the period | - | - | - | - | - | - | - | 1,098,019 |
| Balances at March 31, | 63,571,416 | 63,074 | 1,238,268 | (87,820) | 2,138,344 | 30,651 | 297,000 | 956,589 |

2018

TELEFÔNICA BRASIL S.A.
Statements of Comprehensive Income
Three-month periods ended March 31, 2018 and 2017

(In thousands of reais)

| | Note | Company 1st quarter of 2018 1,098,019 | 1st qu |
|--|------|---|--------|
| Net income for the period | | | |
| Other comprehensive income (losses) that may be reclassified into income (losses) in subsequent periods | | (136,479) | |
| Unrealized gains on investments available for sale | 11 | 20 | |
| Gains (losses) on derivative financial instruments | 30 | (770) | |
| Initial adoption of IFRS 9 and 15 | 1.b | (176,348) | |
| Taxes | 6 | 60,213 | |
| Cumulative Translation Adjustments (CTA) on transactions in foreign currency | 11 | 2,680 | |
| Interest in comprehensive income of subsidiaries | 11 | (22,274) | |
| Other comprehensive income | | (136,479) | |
| Comprehensive income for the period - net of taxes | | 961,540 | |

TELEFÔNICA BRASIL S.A.
Consolidated Statements of Cash Flows
Three-month periods ended March 31, 2018 and 2017

(In thousands in reais)

| | Company | |
|--|----------------------------|----------------------------|
| | 1st quarter of 2018 | 1st quarter of 2017 |
| <u>Cash flows from operating activities</u> | | |
| Income before taxes | 1,331,438 | 1,195,637 |
| Adjustment for: | | |
| Depreciation and amortization | 1,989,690 | 1,936,132 |
| Foreign exchange on loans and derivative financial instruments | (7,269) | 9,031 |
| Monetary losses | 102,385 | 170,393 |
| Equity pickup | (567,928) | (161,858) |
| Loss (gains) on write-off/sale of assets | 4,979 | (4,992) |
| Provision for impairment - accounts receivable | 356,007 | 327,248 |
| Change in liability provisions | 27,149 | 119,111 |
| Write-off and reversals for impairment - inventories | (8,189) | (17,061) |
| Pension plans and other post-retirement benefits | 11,864 | 7,706 |
| Provisions for tax, civil, labor and regulatory contingencies | 209,503 | 257,076 |
| Interest expense | 157,255 | 288,722 |
| Others | (5,110) | 1,906 |
| Changes in assets and liabilities | | |
| Trade accounts receivable | (494,279) | (279,328) |
| Inventories | (153,309) | 25,541 |
| Taxes recoverable | (58,980) | (11,311) |
| Prepaid expenses | (332,407) | (720,325) |
| Other assets | (131,866) | 91,546 |
| Personnel, social charges and benefits | (146,951) | (141,288) |
| Trade accounts payable | 42,941 | (256,283) |
| Taxes, charges and contributions | 65,465 | 47,104 |
| Other liabilities | (327,072) | (644,301) |
| | 733,878 | 1,044,769 |
| Cash generated from operations | 2,065,316 | 2,240,406 |
| Interest paid | (162,045) | (222,745) |
| Income and social contribution taxes paid | - | (37,679) |
| Net cash (used in) generated by operating activities | 1,903,271 | 1,979,982 |
| <u>Cash flows from investing activities</u> | | |
| Additions to PP&E and intangible assets and others | (2,043,657) | (2,415,029) |
| Cash received from sale of PP&E items | 612 | 15,493 |

| | | |
|---|--------------------|--------------------|
| Redemption of (increase in) judicial deposits | (4,549) | (148,070) |
| Dividends and interest on equity received | 860,000 | - |
| Net cash (used in) generated by investing activities | (1,187,594) | (2,547,606) |
| <u>Cash flows from financing activities</u> | | |
| Payment of loans, financing and debentures | (561,056) | (572,573) |
| Loans and financing obtained | - | 2,000,000 |
| Received for derivative financial instruments | 25,938 | 31,253 |
| Payment of derivative financial instruments | (3,416) | (23,029) |
| Dividend and interest on equity paid | (367) | (310) |
| Net cash (used in) generated by financing activities | (538,901) | 1,435,341 |
| Increase (decrease) in cash and cash equivalents | 176,776 | 867,717 |
| Cash and cash equivalents at the beginning of the year | 3,681,173 | 4,675,627 |
| Cash and cash equivalents at the end of the year | 3,857,949 | 5,543,344 |

TELEFÔNICA BRASIL S.A.
Statements of Value Added
Three-month periods ended March 31, 2018 and 2017

(In thousands in reais)

| | Company | |
|---|----------------------------|----------------------------|
| | 1st quarter of 2018 | 1st quarter of 2017 |
| Revenues | 12,892,800 | 14,154,100 |
| Sale of goods and services | 12,692,576 | 14,198,800 |
| Other revenues | 556,231 | 282,500 |
| Provision for impairment of trade accounts receivable | (356,007) | (327,200) |
| Inputs acquired from third parties | (4,527,130) | (5,442,100) |
| Cost of goods and products sold and services rendered | (2,381,462) | (3,133,400) |
| Materials, electric energy, third-party services and other expenses | (2,148,244) | (2,309,900) |
| Loss/recovery of assets | 2,576 | 1,200 |
| Gross value added | 8,365,670 | 8,711,900 |
| Withholdings | (1,989,690) | (1,936,100) |
| Depreciation and amortization | (1,989,690) | (1,936,100) |
| Net value added produced | 6,375,980 | 6,775,800 |
| Value added received in transfer | 818,158 | 687,400 |
| Equity pickup | 567,928 | 161,800 |
| Financial income | 250,230 | 525,600 |
| Total undistributed value added | 7,194,138 | 7,463,300 |
| Distribution of value added | (7,194,138) | (7,463,300) |
| Personnel, social charges and benefits | (936,418) | (1,029,300) |
| Direct compensation | (629,270) | (696,800) |
| Benefits | (260,518) | (276,000) |
| Government Severance Indemnity Fund for Employees (FGTS) | (46,630) | (56,400) |
| Taxes, charges and contributions | (3,975,023) | (3,935,800) |
| Federal | (1,176,671) | (1,268,400) |
| State | (2,756,653) | (2,641,400) |
| Local | (41,699) | (25,900) |
| Debt remuneration | (1,184,678) | (1,501,900) |
| Interest | (435,840) | (819,400) |
| Rental | (748,838) | (682,500) |
| Equity remuneration | (1,098,019) | (996,100) |
| Retained profit | (1,098,019) | (996,100) |

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 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 March 31, 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-month period ended March 31, 2018

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

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

a) Statement of compliance

The individual (Company) and consolidated quarterly financial statements were prepared and are presented in accordance with the accounting practices adopted in Brazil, which comprise CVM standards and CPC (Accounting Pronouncements Committee) pronouncements, in compliance with the International Financial Accounting Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

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.

The consolidated quarterly financial statements (Consolidated) have been prepared and are presented in accordance with CPC 21 (R1) Interim Statements and IAS 34 - Interim Financial Reporting issued by the IASB and standards established as Resolution No. 739/15 of the CVM.

b) Basis of preparation and presentation

The Company's quarterly financial statements for the three-month period ended March 31, 2018 are presented in thousands of *Reais* (unless otherwise stated), which is the functional currency of the Company.

These quarterly financial statements compares the quarters ended March 31, 2018 and 2017, except for the balance sheets, that compare the positions as at March 31, 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 April 20, 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. In the meantime, the Company selected and included information to explain the main events and transactions occurring during the three-month period ended March 31, 2018, in order to understand the changes in the Company's financial position and performance.

In this context, the Company indicates below the number of the notes disclosed in the annual financial statements as at December 31, 2017 and not fully restated 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

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(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

- Note 29 - Share-Based Payment Plans
- Note 30 – Pension Plans and Other Post-Employment Benefits

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, in addition to 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 | Classification 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 Investment 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 following standards issued, there was a significant impact on the consolidated financial position at the time of its adoption and prospectively.

IFRS 15 Revenues from Contracts with Customers

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.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

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, comparisons 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 three-month period ended March 31, 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.

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 for the three-month period ended March 31, 2018.

| | Contract assets (1) | | | |
|------------------------|----------------------|----------------------|-----------------------------|-----------------------|
| Contract assets, gross | Provision for losses | Contract assets, net | Contractual liabilities (2) | Incremental costs (3) |

| | | | | | |
|-------------------------------------|----------------|-----------------|----------------|------------------|----------------|
| Initial adoption on 01.01.18 | 193,675 | (33,196) | 160,479 | (178,897) | 183,645 |
| Additions | 157,092 | (8,023) | 149,069 | (49,250) | 51,326 |
| Write-offs, net | (110,965) | - | (110,965) | 45,948 | (44,070) |
| Balances as of 03.31.18 | 239,802 | (41,219) | 198,583 | (182,199) | 190,901 |
| Current | | | 198,583 | (138,672) | 134,092 |
| Noncurrent | | | - | (43,527) | 56,809 |

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

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.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of Reais, unless otherwise stated)**

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.

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 |

| | | |
|-------------------------------------|---|--------------------------|
| IFRS 17 | Insurance Contracts | January 1, 2021 |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between na Investidor and its Associate or Joint Venture | Deferred Indefinitely |

Based on the analyses made to date, the Company estimates that the adoption of 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.

IFRS 16 Leases

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

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

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NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

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

Due to the different alternatives available, together with the complexity of the estimations and the significant number of lease contracts, the Company has not yet completed the implementation process, so at present it is not possible to make a reasonable estimation of the impact of initial application of the new requirements. However, based on the volume of contracts affected, as well as the magnitude of the future lease commitments, as disclosed in Note 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 side, the Company's Financial Statements will include broader disclosures with relevant information regarding lease contracts.

c) Basis of consolidation

At March 31, 2018 and December 31, 2017, the Company held the following equity interests on the respective dates:

| Investees | Type of investment | Equity interests | Country (Headquarters) | Core activity |
|--|-------------------------------|------------------|------------------------|--|
| Telefônica Data S.A. ("TData") (1) | Wholly-owned subsidiary | 100.00% | Brazil | Telecommunications |
| POP Internet Ltda ("POP") (2) | Wholly-owned subsidiary | 100.00% | Brazil | Internet |
| Aliança Atlântica Holding B.V. ("Aliança") | Jointly-controlled subsidiary | 50.00% | Holland | Holding of the telecommunications sector |
| Companhia AIX de Participações ("AIX") | Jointly-controlled subsidiary | 50.00% | Brazil | Operation of underground telecommunications networks |
| Companhia ACT de Participações ("ACT") | Jointly-controlled subsidiary | 50.00% | Brazil | Technical assistance in telecommunication networks |

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

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

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

d) Reclassification of comparative amounts

The Company reclassified the amount of R\$655,084 in the statements of cash flows for the three-month period ended March 31, 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".

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)****3) CASH AND CASH EQUIVALENTS**

| | Company | | Consolidated | |
|------------------------|------------------|------------------|------------------|------------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Cash and banks | 87,270 | 114,556 | 88,955 | 117,799 |
| Short-term investments | 3,770,679 | 3,566,617 | 4,265,536 | 3,932,539 |
| Total | 3,857,949 | 3,681,173 | 4,354,491 | 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.

4) TRADE ACCOUNTS RECEIVABLE

| | Company | | Consolidated | |
|---|-----------|-----------|--------------|-----------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Billed amounts | 6,678,356 | 6,642,523 | 7,098,205 | 6,753,621 |
| Unbilled amounts | 2,105,426 | 2,137,645 | 2,504,769 | 2,481,364 |
| Interconnection amounts | 938,423 | 835,085 | 909,880 | 859,819 |
| Amounts from related parties (Note 27) | 169,569 | 175,201 | 198,264 | 201,021 |

| | | | | |
|----------------------------------|------------------|------------------|-------------------|-------------------|
| Gross accounts receivable | 9,891,774 | 9,790,454 | 10,711,118 | 10,295,825 |
| Estimated impairment losses | (1,370,527) | (1,209,369) | (1,654,655) | (1,433,471) |
| Total | 8,521,247 | 8,581,085 | 9,056,463 | 8,862,354 |
| Current | 8,346,384 | 8,413,403 | 8,770,683 | 8,588,466 |
| Non-current | 174,863 | 167,682 | 285,780 | 273,888 |

Consolidated balances of non-current trade accounts receivable include:

- R\$128,067 at March 31, 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 March 31, 2018, the impact of the present-value adjustment was R\$11,536 (R\$16,011 at December 31, 2017).
- R\$46,796, at March 31, 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 March 31, 2018, the impact of the present-value adjustment was R\$13,770 (R\$15,535 at December 31, 2017).
- R\$110,917, at March 31, 2018 (R\$106,206, at December 31, 2017), relating to “Solucionadora 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 March 31, 2018, the impact of the present-value adjustment was R\$32,198 (R\$33,614 at December 31, 2017).

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

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| | Consolidated | |
|---|----------------|----------------|
| | 03/31/18 | 12/31/17 |
| Nominal amount receivable | 436,510 | 434,743 |
| Deferred financial income | (32,198) | (33,614) |
| Present value of accounts receivable | 404,312 | 401,129 |
| Estimated impairment losses | (145,691) | (154,666) |
| Net amount receivable | 258,621 | 246,463 |
| Current | 147,704 | 140,257 |
| Non-current | 110,917 | 106,206 |

At March 31, 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 | 233,164 | 233,164 |
| Falling due between one year and five years | 203,346 | 171,148 |
| Total | 436,510 | 404,312 |

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 | |
|--------------------------|------------------|------------------|------------------|------------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Falling due | 6,294,645 | 6,557,992 | 6,563,936 | 6,635,125 |
| Overdue – 1 to 30 days | 1,073,540 | 1,016,172 | 1,229,349 | 1,132,008 |
| Overdue – 31 to 60 days | 350,135 | 342,779 | 382,343 | 375,176 |
| Overdue – 61 to 90 days | 177,453 | 224,597 | 203,840 | 232,648 |
| Overdue – 91 to 120 days | 176,960 | 96,586 | 198,670 | 105,342 |
| Overdue – over 120 days | 448,514 | 342,959 | 478,325 | 382,055 |
| Total | 8,521,247 | 8,581,085 | 9,056,463 | 8,862,354 |

At March 31, 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:

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| | Company | Consolidated |
|--|--------------------|--------------------|
| Balance at 12/31/16 | (1,004,512) | (1,399,895) |
| Supplement to estimated losses (Note 24) | (396,175) | (430,932) |
| Reversal of estimated losses (Note 24) | 68,927 | 73,189 |
| Write-off due to use | 258,506 | 266,012 |
| Balance at 03/31/17 | (1,073,254) | (1,491,626) |
| Supplement to estimated losses | (1,474,263) | (1,563,837) |
| Reversal of estimated losses | 396,426 | 440,565 |
| Write-off due to use | 941,722 | 1,190,146 |
| Business combinations (Note 1.c) | - | (8,719) |
| 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 (Note 24) | (476,176) | (599,537) |
| Reversal of estimated losses (Note 24) | 120,169 | 201,457 |
| Write-off due to use | 526,976 | 541,352 |
| Balance at 03/31/18 | (1,370,527) | (1,654,655) |

5) INVENTORIES

| | Company | | Consolidated | |
|--|----------------|----------------|----------------|----------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Materials for resale (1) | 450,169 | 302,235 | 473,588 | 325,850 |
| Materials for consumption | 62,844 | 55,448 | 64,887 | 57,740 |
| Other inventories | 7,918 | 7,822 | 7,918 | 7,822 |
| Gross total | 520,931 | 365,505 | 546,393 | 391,412 |
| Estimated losses from impairment or obsolescence (2) | (34,722) | (40,794) | (35,752) | (42,657) |
| Total | 486,209 | 324,711 | 510,641 | 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, which will be offset against federal taxes to be determined in the future.

| | Company | | Consolidated | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Income taxes recoverable | 512,580 | 348,113 | 598,263 | 428,524 |
| Social contribution taxes recoverable | 55,530 | 53,146 | 80,029 | 77,011 |
| Total | 568,110 | 401,259 | 678,292 | 505,535 |

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)****b) Income and Social Contribution taxes payable**

| | Consolidated | |
|-----------------------------------|----------------|--------------|
| | 03/31/18 | 12/31/17 |
| Income taxes payable | 221,332 | 3,267 |
| Social contribution taxes payable | 80,408 | 1,212 |
| Total | 301,740 | 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.

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

| | Balances at 12/31/16 | Income statement | Comprehensive income | Balances at 03/31/17 | Company Income statement | Comprehensive income | Balances at 12/31/17 |
|---------------------------------------|-------------------------|---------------------|-------------------------|-------------------------|--------------------------------|-------------------------|-------------------------|
| <u>Deferred tax assets</u> | | | | | | | |
| <u>(liabilities)</u> | | | | | | | |
| Income and social | 1,376 | (1,376) | - | - | 588,750 | - | 588,750 |

| | | | | | | | |
|--|-----------------|------------------|----------------|------------------|--------------------|---------------|--------------------|
| contribution taxes on tax losses (1) | | | | | | | |
| Income and social contribution taxes on temporary differences (2) | (90,071) | (157,473) | (2,243) | (249,787) | (1,106,718) | 58,430 | (1,298,075) |
| Provisions for legal, labor, tax civil and regulatory contingencies | 2,221,055 | 97,743 | - | 2,318,798 | (63,711) | - | 2,255,087 |
| Trade accounts payable and other provisions | 608,158 | 40,498 | - | 648,656 | (60,362) | - | 588,294 |
| Customer portfolio and trademarks | 313,091 | (13,740) | - | 299,351 | (44,934) | - | 254,417 |
| Estimated losses on impairment of accounts receivable | 341,535 | 23,372 | - | 364,907 | 46,280 | - | 411,187 |
| Estimated losses from modems and other P&E items | 282,267 | (6,516) | - | 275,751 | (76,317) | - | 199,434 |
| Pension plans and other post-employment benefits | 108,403 | 5,099 | - | 113,502 | 5,399 | 55,480 | 174,381 |
| Profit sharing | 123,911 | (54,715) | - | 69,196 | 31,447 | - | 100,643 |
| Provision for loyalty program | 19,112 | 648 | - | 19,760 | (2,639) | - | 17,121 |
| Accelerated accounting depreciation | 24,033 | 12 | - | 24,045 | (15,785) | - | 8,260 |
| Estimated impairment losses on inventories | 11,227 | (2,932) | - | 8,295 | 2,825 | - | 11,120 |
| Derivative transactions | 59,692 | 17,654 | (2,085) | 75,261 | (52,003) | 2,907 | 26,165 |
| Licenses | (1,420,556) | (54,082) | - | (1,474,638) | (162,248) | - | (1,636,886) |
| Effects of goodwill generated in the merger of Vivo Part. | (864,320) | (3,277) | - | (867,597) | (2,184) | - | (869,781) |

| | | | | | | | |
|---|--------------------|------------------|----------------|--------------------|------------------|---------------|--------------------|
| Goodwill from Spanish and Navytree | (337,535) | - | - | (337,535) | - | - | (337,535) |
| Goodwill from Vivo Part. | (1,005,120) | (41,801) | - | (1,046,921) | (125,402) | - | (1,172,323) |
| Goodwill from GVT Part. | (522,228) | (174,076) | - | (696,304) | (522,229) | - | (1,218,533) |
| Technological Innovation Law | (140,940) | 13,671 | - | (127,269) | 29,736 | - | (97,533) |
| Income and social contribution taxes on other temporary differences (3) | 88,144 | (5,031) | (158) | 82,955 | (94,591) | 43 | (11,593) |
| Total deferred tax assets (liabilities), noncurrent | (88,695) | (158,849) | (2,243) | (249,787) | (517,968) | 58,430 | (709,325) |
| Deferred tax assets | 4,425,658 | | | 4,554,995 | | | 4,916,768 |
| Deferred tax liabilities | (4,514,353) | | | (4,804,782) | | | (5,626,093) |
| Deferred tax assets (liabilities), net | (88,695) | | | (249,787) | | | (709,325) |
| Represented in the balance sheet as follows: | | | | | | | |
| Deferred tax assets | - | | | - | | | - |
| Deferred tax liabilities | (88,695) | | | (249,787) | | | (709,325) |

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

| | Balances at 12/31/16 | Income statement | Comprehensive income | Balances at 03/31/17 | Income statement | Comprehensive income | Consolidated Business combination (Note 1) |
|--|-------------------------|---------------------|-------------------------|-------------------------|---------------------|-------------------------|---|
| <u>Deferred tax assets (liabilities)</u> | | | | | | | |
| Income and social contribution taxes on tax losses (1) | 14,071 | (1,781) | - | 12,290 | 712,192 | - | 69,4 |
| Income and social contribution taxes on temporary differences (2) | 13,426 | (139,822) | (2,243) | (128,639) | (1,111,994) | 60,435 | 48,4 |
| Provisions for legal, labor, tax civil and regulatory contingencies | 2,230,336 | 98,677 | - | 2,329,013 | (30,278) | - | |
| Trade accounts payable and other provisions | 677,123 | 44,056 | - | 721,179 | (69,762) | - | |
| Estimated losses on impairment of accounts receivable | 358,805 | 25,089 | - | 383,894 | 51,066 | - | |
| Customer portfolio and trademarks | 313,092 | (13,740) | - | 299,352 | (44,934) | - | |
| Estimated losses from modems and | 284,677 | (6,631) | - | 278,046 | (77,105) | - | |

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| | | | | | | | |
|---|--------------------|------------------|----------------|--------------------|------------------|---------------|--------------|
| other P&E items | | | | | | | |
| Pension plans and other | | | | | | | |
| post-employment benefits | 108,419 | 5,099 | - | 113,518 | 3,531 | 57,485 | |
| Profit sharing | 125,256 | (55,499) | - | 69,757 | 40,289 | - | |
| Provision for loyalty program | 19,112 | 648 | - | 19,760 | (2,639) | - | |
| Accelerated accounting depreciation | 24,033 | 12 | - | 24,045 | (15,785) | - | |
| Estimated impairment losses on inventories | 12,099 | (2,047) | - | 10,052 | 1,700 | - | |
| Derivative transactions | 60,133 | 17,037 | (2,085) | 75,085 | (52,121) | 2,907 | |
| Licenses | (1,420,556) | (54,082) | - | (1,474,638) | (162,248) | - | |
| Effects of goodwill generated in the acquisition of Vivo Part. | (864,320) | (3,277) | - | (867,597) | (2,184) | - | |
| Goodwill from Spanish and Navytree | (337,535) | - | - | (337,535) | - | - | |
| Goodwill from Vivo Part. | (1,005,120) | (41,801) | - | (1,046,921) | (125,402) | - | |
| Goodwill from GVTPart. | (522,228) | (174,076) | - | (696,304) | (522,229) | - | |
| Technological Innovation Law | (140,940) | 13,671 | - | (127,269) | 29,736 | - | |
| Income and social contribution taxes on other temporary differences (3) | 91,040 | 7,042 | (158) | 97,924 | (133,629) | 43 | 48,4 |
| Total deferred tax assets (liabilities), noncurrent | 27,497 | (141,603) | (2,243) | (116,349) | (399,802) | 60,435 | 117,8 |
| Deferred tax assets | 4,541,952 | | | 4,673,884 | | | |
| Deferred tax liabilities | (4,514,455) | | | (4,790,233) | | | |
| Deferred tax assets (liabilities), net | 27,497 | | | (116,349) | | | |

**Represented in
the balance sheet
as follows:**

| | | |
|-------------------------------------|---------------|------------------|
| Deferred tax assets | 27,497 | 133,438 |
| Deferred tax liabilities | - | (249,787) |

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

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

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

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

At March 31, 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\$12,385 (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 three-month period ended March 31, 2018 and 2017.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

| | Company | | Consolidated | |
|--|------------------------|------------------------|------------------------|------------------------|
| | 1st quarter of 2018 | 1st quarter of 2017 | 1st quarter of 2018 | 1st quarter of 2017 |
| Income before taxes | 1,331,438 | 1,195,637 | 1,624,017 | 1,280,715 |
| Income and social contribution tax expenses, at the tax rate of 34% | (452,689) | (406,517) | (552,166) | (435,443) |
| <u>Permanent differences</u> | | | | |
| Equity pickup, net of effects from interest on equity received and surplus value of the assets purchased attributed to the Company (Note 11) | 193,096 | 55,032 | 192 | 274 |
| Unclaimed interest on equity | - | (10,319) | - | (10,319) |
| Non-deductible expenses, gifts, incentives | (9,583) | (18,872) | (10,841) | (20,276) |
| Tax benefit related to interest on equity allocated | - | 180,200 | - | 180,200 |
| Other (additions) exclusions | 35,757 | 1,036 | 36,817 | 1,046 |
| Total | (233,419) | (199,440) | (525,998) | (284,518) |
| Effective rate | 17.5% | 16.7% | 32.4% | 22.2% |
| Current income and social contribution taxes | (209) | (40,591) | (310,244) | (142,915) |
| Deferred income and social contribution taxes | (233,210) | (158,849) | (215,754) | (141,603) |

Breakdown of gains and losses of deferred income and social contribution taxes on temporary differences is shown in Note 6.c).

7) TAXES, CHARGES AND CONTRIBUTIONS RECOVERABLE

| | Company | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| State VAT (ICMS) (1) | 2,464,001 | 2,438,272 | 2,473,254 | 2,450,856 |
| Withholding taxes and contributions (2) | 77,081 | 212,264 | 100,288 | 238,355 |
| PIS and COFINS | 69,333 | 66,335 | 83,150 | 85,098 |
| INSS, ISS and other taxes | 8,281 | 8,232 | 25,629 | 27,431 |
| Total | 2,618,696 | 2,725,103 | 2,682,321 | 2,801,740 |
| Current | 1,834,695 | 1,984,999 | 1,894,829 | 2,058,455 |
| Non-current | 784,001 | 740,104 | 787,492 | 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\$455,719 and R\$423,588 on March 31, 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.

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.

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| | Company | | Consolidated | |
|-------------------|------------------|------------------|------------------|------------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Judicial deposits | | | | |
| Tax | 4,152,996 | 4,074,517 | 4,311,043 | 4,230,917 |
| Labor | 831,076 | 864,022 | 851,865 | 885,338 |
| Civil | 1,209,769 | 1,203,297 | 1,212,417 | 1,205,807 |
| Regulatory | 202,639 | 200,627 | 202,639 | 200,627 |
| Total | 6,396,480 | 6,342,463 | 6,577,964 | 6,522,689 |
| Garnishments | 147,250 | 137,823 | 150,566 | 141,116 |
| Total | 6,543,730 | 6,480,286 | 6,728,530 | 6,663,805 |
| Current | 339,513 | 324,465 | 339,702 | 324,638 |
| Non-current | 6,204,217 | 6,155,821 | 6,388,828 | 6,339,167 |

On March 31, 2018, the Company and its subsidiaries had a number of tax-related judicial deposits in the consolidated amount of R\$4,311,043 (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 March 31, 2018 and December 31, 2107 of the tax judicial deposits (segregated and summarized by tribute).

| | Consolidated | |
|---|------------------|------------------|
| | 03/31/18 | 12/31/17 |
| Contribution to Empresa Brasil de Comunicação (EBC) | 1,251,475 | 1,238,068 |
| Telecommunications Inspection Fund (FISTEL) | 1,167,205 | 1,161,061 |
| Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL) | 525,038 | 518,474 |
| Universal Telecommunication Services Fund (FUST) | 488,676 | 484,649 |
| Social Contribution Tax for Intervention in the Economic Order (CIDE) | 272,653 | 270,612 |
| State Value-Added Tax (ICMS) | 286,140 | 273,264 |
| Social Security, work accident insurance (SAT) and funds to third parties (INSS) | 137,173 | 134,688 |
| Withholding Income Tax (IRRF) | 46,243 | 45,846 |
| Contribution tax on gross revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS) | 38,594 | 37,965 |
| Other taxes, charges and contributions | 97,846 | 66,290 |
| Total | 4,311,043 | 4,230,917 |

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

- Contribution to Empresa Brasil de Comunicação (EBC)

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

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- Telecommunications Inspection Fund (FISTEL)

The Company has legal proceedings involving the collection by ANATEL of the Installation Inspection Fee ("TFI") on the renewal of the validity of the license, as well as the exclusion of the calculation basis of the Installation Inspection Fee ("TFI") and Inspection and Operation Fee ("TFF") of mobile stations that do not belong to it.

9) PREPAID EXPENSES

| | Company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Fistel Fee (1) | 232,973 | - | 232,973 | - |
| Advertising and publicity | 281,570 | 335,700 | 282,058 | 336,295 |
| Insurance | 27,262 | 36,672 | 27,493 | 36,941 |
| Rental | 85,023 | 29,713 | 85,023 | 29,713 |
| Software and networks maintenance | 52,702 | 7,422 | 59,012 | 12,375 |
| Incremental costs - IFRS 15 (2) | 190,901 | - | 190,901 | - |
| Taxes, financial charges, personal and other | 93,025 | 37,475 | 110,344 | 54,231 |
| Total | 963,456 | 446,982 | 987,804 | 469,555 |
| Current | 888,066 | 425,298 | 912,036 | 446,439 |
| Non-current | 75,390 | 21,684 | 75,768 | 23,116 |

(1) Refers to the remaining portion of the Inspection and Operation Fee amounts paid in March 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 | |
|--|----------------|----------------|----------------|----------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Advances to employees and suppliers | 98,327 | 53,103 | 107,621 | 58,456 |
| Related-party receivables (Note 27) | 654,451 | 557,211 | 197,650 | 166,733 |
| Receivables from suppliers | 96,378 | 114,015 | 96,378 | 114,015 |
| Surplus from post-employment benefit plans (Note 29) | 9,746 | 9,616 | 9,970 | 9,833 |
| Other amounts receivable | 24,280 | 54,282 | 33,364 | 61,295 |
| Total | 883,182 | 788,227 | 444,983 | 410,332 |
| Current | 804,686 | 701,882 | 364,286 | 321,397 |
| Non-current | 78,496 | 86,345 | 80,697 | 88,935 |

11) INVESTMENTS

a) Information on investees

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

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

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NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

| | 03/31/18 | | | | | 12/31/17 | | | | |
|--|--|----------------|---------------------------------|---------------|---------------|--|----------------|---------------------------------|---------------|---------------|
| | Consolidated wholly-owned subsidiaries | | Jointly-controlled subsidiaries | | | Consolidated wholly-owned subsidiaries | | Jointly-controlled subsidiaries | | |
| | TData | POP | Aliança | Cia AIX | Cia ACT | TData | POP | Aliança | Cia AIX | Cia |
| <u>Equity interest</u> | 100.00% | 100.00% | 50.00% | 50.00% | 50.00% | 100.00% | 100.00% | 50.00% | 50.00% | 50.00% |
| <u>Summary of balance sheets:</u> | | | | | | | | | | |
| Current assets | 2,782,471 | 36,554 | 172,882 | 23,805 | 17 | 2,928,721 | 33,566 | 167,540 | 22,431 | |
| Non-current assets | 771,009 | 53,254 | - | 12,889 | - | 749,694 | 52,761 | - | 13,410 | |
| Total assets | 3,553,480 | 89,808 | 172,882 | 36,694 | 17 | 3,678,415 | 86,327 | 167,540 | 35,841 | |
| Current liabilities | 2,186,611 | 48,752 | 72 | 3,898 | 1 | 1,893,271 | 47,337 | 58 | 4,084 | |
| Non-current liabilities | 188,008 | 15 | - | 4,688 | - | 185,794 | 24 | - | 4,811 | |
| Equity | 1,178,861 | 41,041 | 172,810 | 28,108 | 16 | 1,599,350 | 38,966 | 167,482 | 26,946 | |
| Total liabilities and equity | 3,553,480 | 89,808 | 172,882 | 36,694 | 17 | 3,678,415 | 86,327 | 167,540 | 35,841 | |
| Investment Book value | 1,178,861 | 41,041 | 86,405 | 14,054 | 8 | 1,599,350 | 38,966 | 83,741 | 13,473 | |

1st quarter of 2018

1st quarter

| <u>Summary of Income Statements:</u> | Consolidated wholly-owned subsidiaries | | Jointly-controlled subsidiaries | | | Consolidated wholly-owned subsidiaries | | Jointl |
|--|--|--------------|---------------------------------|--------------|----------|--|--------------|--------|
| | TData | POP | Aliança | Cia AIX | Cia ACT | TData | POP | |
| Net operating income | 1,719,333 | 7,812 | - | 11,476 | 16 | 560,572 | 7,370 | |
| Operating costs and expenses | (885,551) | (3,995) | (40) | (10,730) | (16) | (340,717) | (4,352) | |
| Financial income (expenses), net | 22,525 | (183) | 8 | 255 | - | 22,838 | 421 | |
| Income and social contribution taxes | (291,114) | (1,464) | - | 160 | - | (83,573) | (1,506) | |
| Net income (loss) for the period | 565,193 | 2,170 | (32) | 1,161 | - | 159,120 | 1,933 | |
| Equity pickup, according to interest held | 565,193 | 2,170 | (16) | 581 | - | 159,120 | 1,933 | |

b) Changes in investments

| | TData | POP | Aliança | AIX | ACT | Goodwill (1) |
|----------------------------------|------------------|---------------|---------------|---------------|-----------|----------------|
| Balances at 12/31/16 | 1,079,464 | 29,888 | 72,510 | 11,886 | 7 | 212,058 |
| Equity pick-up | 159,120 | 1,933 | - | 782 | 23 | - |
| Other comprehensive income | - | - | (1,051) | - | - | - |
| Balances at 03/31/17 | 1,238,584 | 31,821 | 71,459 | 12,668 | 30 | 212,058 |
| Equity pick-up | 1,133,706 | 7,145 | (8) | 805 | (22) | - |
| Equity transactions (Note 1 c) | (59,029) | - | - | - | - | - |
| Dividends and interest on equity | (707,794) | - | - | - | - | - |
| Other comprehensive income | (6,117) | - | 12,290 | - | - | - |
| Balances at 12/31/17 | 1,599,350 | 38,966 | 83,741 | 13,473 | 8 | 212,058 |
| Equity pick-up | 565,193 | 2,170 | (16) | 581 | - | - |
| Dividends and interest on equity | (963,503) | - | - | - | - | - |
| Other comprehensive income | (22,179) | (95) | 2,680 | - | - | - |
| Balances at 03/31/18 | 1,178,861 | 41,041 | | 14,054 | | |

86,405

8

212,058

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

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

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Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

12) PROPERTY, PLANT AND EQUIPMENT

a) Breakdown, changes and depreciation rates

| | Switching and transmission equipment | Terminal equipment / modems | Infrastructure | Company Land | Other P&E | Estimated losses (1) | Assets a facilities un construct |
|--|---|-----------------------------------|------------------|-----------------|-------------------|-------------------------|--|
| <u>Annual depreciation rate (%)</u> | 2.50 to 25.00 | 6.67 to 66.67 | 2.50 to 66.67 | | 10.00 to 25.00 | | |
| <u>Balances and changes:</u> | | | | | | | |
| Balance at 12/31/16 | 22,231,625 | 2,581,179 | 3,715,494 | 315,719 | 778,048 | (485,386) | 2,700,4 |
| Additions | 12,628 | 21,692 | 14,371 | - | 55,971 | (22,601) | 951,5 |
| Write-offs, net | (3,812) | (13) | (2,346) | (1,914) | (106) | 2,515 | (5,8 |
| Net transfers | 602,166 | 85,719 | 254,224 | - | 436 | - | (924,1 |
| Depreciation (Note 24) | (747,937) | (326,031) | (134,544) | - | (79,148) | - | |
| Balance at 03/31/17 | 22,094,670 | 2,362,546 | 3,847,199 | 313,805 | 755,201 | (505,472) | 2,722,5 |
| Additions | | | | | | | 5,111, |

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| | | | | | | | |
|--------------------------------|-------------------|------------------|------------------|----------------|----------------|------------------|----------------|
| | 30,369 | 119,440 | 76,789 | 550 | 183,018 | (14,677) | |
| Write-offs, net | (84,952) | (7,589) | (4,345) | (2) | (2,465) | 159,709 | (11,6 |
| Net transfers | 3,032,127 | 1,385,712 | 364,784 | - | 15,017 | 132,578 | (4,967,8 |
| Depreciation | (2,263,241) | (1,140,428) | (406,745) | - | (185,089) | - | |
| Balance at 12/31/17 | 22,808,973 | 2,719,681 | 3,877,682 | 314,353 | 765,682 | (227,862) | 2,854,0 |
| Additions | 3,279 | 31,322 | 25,749 | 550 | 35,124 | (2,220) | 1,171,5 |
| Write-offs, net | (9,246) | (47) | (336) | - | (1,019) | 11,575 | (4,3 |
| Net transfers | 1,456,771 | (273,303) | 64,211 | - | 13,025 | - | (1,265,6 |
| Depreciation (Note 24) | (800,887) | (349,263) | (136,740) | - | (74,434) | - | |
| Balance at 03/31/18 | 23,458,890 | 2,128,390 | 3,830,566 | 314,903 | 738,378 | (218,507) | 2,755,0 |
| At 12/31/17 | | | | | | | |
| Cost | 74,092,109 | 16,797,604 | 15,628,384 | 314,353 | 4,404,945 | (227,862) | 2,854,0 |
| Accumulated depreciation | (51,283,136) | (14,077,923) | (11,750,702) | - | (3,639,263) | - | |
| Total | 22,808,973 | 2,719,681 | 3,877,682 | 314,353 | 765,682 | (227,862) | 2,854,0 |
| At 03/31/18 | | | | | | | |
| Cost | 75,524,038 | 16,428,971 | 15,717,519 | 314,903 | 4,448,722 | (218,507) | 2,755,0 |
| Accumulated depreciation | (52,065,148) | (14,300,581) | (11,886,953) | - | (3,710,344) | - | |
| Total | 23,458,890 | 2,128,390 | 3,830,566 | 314,903 | 738,378 | (218,507) | 2,755,0 |

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Three-month period ended March 31, 2018

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

| | Consolidated | | | | | | |
|--|---|-----------------------------------|----------------------|----------------|---------------------------|-------------------------|--------------------------|
| | Switching and transmission equipment | Terminal equipment / modems | Infrastructure | Land | Other P&E | Estimated losses (1) | Ass facilitie cons |
| <u>Annual depreciation rate (%)</u> | 2.50 to 25.00 | 6.67 to 66.67 | 2.50 to 66.67 | | 10.00 to 25.00 | | |
| <u>Balances and changes:</u> | | | | | | | |
| Balance at 12/31/16 | 22,231,874 | 2,588,307 | 3,725,207 | 315,719 | 819,356 | (485,575) | 2,7 |
| Additions | 12,628 | 21,692 | 14,371 | - | 58,394 | (22,684) | 9 |
| Write-offs, net | (3,810) | (13) | (2,346) | (1,914) | (106) | 2,591 | |
| Net transfers | 602,166 | 85,719 | 254,224 | - | 19,134 | - | (9 |
| Depreciation (Note 24) | (747,968) | (327,079) | (135,283) | - | (84,623) | - | |
| Balance at 03/31/17 | 22,094,890 | 2,368,626 | 3,856,173 | 313,805 | 812,155 | (505,668) | 2,7 |
| Additions | 30,371 | 119,440 | 76,789 | 550 | 201,226 | (14,690) | 5, |
| Write-offs, net | (84,956) | (7,589) | (4,620) | (2) | (2,416) | 159,728 | (|
| Net transfers | 3,032,127 | 1,385,712 | 364,784 | - | 14,959 | 132,578 | (4,9 |
| Depreciation | (2,263,323) | (1,141,857) | (409,171) | - | (200,360) | - | |

| | | | | | | | |
|---------------------------------|-------------------|------------------|------------------|----------------|----------------|------------------|------------|
| Business Combination (Note 1.c) | - | - | 1,342 | - | 4,888 | - | - |
| Balance at 12/31/17 | 22,809,109 | 2,724,332 | 3,885,297 | 314,353 | 830,452 | (228,052) | 2,8 |
| Additions | 3,279 | 31,322 | 25,749 | 550 | 60,044 | (2,220) | 1, |
| Write-offs, net | (9,244) | (47) | (336) | - | (1,019) | 11,575 | |
| Net transfers | 1,456,771 | (273,303) | 64,211 | - | 13,035 | - | (1,2 |
| Depreciation (Note 24) | (800,907) | (349,507) | (137,588) | - | (80,937) | - | |
| Balance at 03/31/18 | 23,459,008 | 2,132,797 | 3,837,333 | 314,903 | 821,575 | (218,697) | 2,7 |
| At 12.31.17 | | | | | | | |
| Cost | 74,100,056 | 16,845,903 | 15,728,808 | 314,353 | 4,687,395 | (228,052) | 2,8 |
| Accumulated depreciation | (51,290,947) | (14,121,571) | (11,843,511) | - | (3,856,943) | - | |
| Total | 22,809,109 | 2,724,332 | 3,885,297 | 314,353 | 830,452 | (228,052) | 2,8 |
| At 03.31.18 | | | | | | | |
| Cost | 75,531,985 | 16,477,270 | 15,817,943 | 314,903 | 4,756,104 | (218,697) | 2,7 |
| Accumulated depreciation | (52,072,977) | (14,344,473) | (11,980,610) | - | (3,934,529) | - | |
| Total | 23,459,008 | 2,132,797 | 3,837,333 | 314,903 | 821,575 | (218,697) | 2,7 |

(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 March 31, 2018, the Company had consolidated amounts of property and equipment items pledged in guarantee for lawsuits, amounting to R\$170,566 (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 March 31, 2018, estimated residual value of reversible assets was R\$8,689,242 (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) Finance lease

At March 31, 2018, classes of switching and transmission equipment, infrastructure and other assets included the net residual amounts of R\$279,036 (R\$280,103 as at December 31, 2017), in which the Company is a lessee of financial leasing operations.

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Three-month period ended March 31, 2018

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

13) INTANGIBLE ASSETS

a) Breakdown, changes and amortization rates

| | Indefinite useful life | | Company Finite useful life | | | Other intangible assets |
|--|---------------------------|------------------|-------------------------------|------------------|---------------------|-------------------------------|
| | Goodwill | Software | Customer portfolio | Trademarks | Licenses | |
| <u>Annual amortization rate (%)</u> | | 20.00 | 11.76 | 5.13 | 3.60 to 6.67 | 20.00 |
| <u>Balances and changes:</u> | | | | | | |
| Balance at 12/31/16 | 22,850,363 | 2,693,207 | 2,561,220 | 1,157,820 | 14,897,968 | 50,698 |
| Additions | - | 95,275 | - | - | - | 18 |
| Write-offs, net | - | (1) | - | - | - | - |
| Net transfers | - | 186,924 | - | - | - | (24,110) |
| Amortization (Note 24) | - | (246,187) | (148,320) | (21,051) | (232,091) | (1,707) |
| Balance at 03/31/17 | 22,850,363 | 2,729,218 | 2,412,900 | 1,136,769 | 14,665,877 | 24,899 |

| | | | | | | |
|--------------------------------|-------------------|------------------|------------------|------------------|-------------------|---------------|
| Additions | - | 165,502 | - | - | - | 207 |
| Write-offs, net | - | (7,424) | - | - | - | (18) |
| Net transfers | - | 514,621 | - | - | - | (187) |
| Amortization | - | (697,517) | (434,037) | (63,154) | (696,271) | (3,953) |
| Balance at 12/31/17 | 22,850,363 | 2,704,400 | 1,978,863 | 1,073,615 | 13,969,606 | 20,948 |
| Additions | - | 45,084 | - | - | - | - |
| Net transfers | - | 117,555 | - | - | - | 2 |
| Amortization (Note 24) | - | (238,660) | (137,398) | (21,051) | (230,020) | (1,237) |
| Balance at 03/31/18 | 22,850,363 | 2,628,379 | 1,841,465 | 1,052,564 | 13,739,586 | 19,713 |
| At 12/31/17 | | | | | | |
| Cost | 22,850,363 | 14,966,763 | 4,513,278 | 1,658,897 | 20,237,572 | 238,193 |
| Accumulated amortization | - | (12,262,363) | (2,534,415) | (585,282) | (6,267,966) | (217,245) |
| Total | 22,850,363 | 2,704,400 | 1,978,863 | 1,073,615 | 13,969,606 | 20,948 |
| At 03/31/18 | | | | | | |
| Cost | 22,850,363 | 15,127,578 | 4,513,278 | 1,658,897 | 20,237,572 | 238,195 |
| Accumulated amortization | - | (12,499,199) | (2,671,813) | (606,333) | (6,497,986) | (218,482) |
| Total | 22,850,363 | 2,628,379 | 1,841,465 | 1,052,564 | 13,739,586 | 19,713 |

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Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

| | Indefinite useful life | | Consolidated Finite useful life | | | |
|--|------------------------|-----------------------|---------------------------------|----------------------|---------------------|-------------------------|
| | Goodwill | Software | Customer portfolio | Trademarks | Licenses | Other intangible assets |
| <u>Annual amortization rate (%)</u> | | 20.00 to 50.00 | 11.76 to 12.85 | 5.13 to 66.67 | 3.60 to 6.67 | 6.67 to 20.00 |
| <u>Balances and changes:</u> | | | | | | |
| Balance at 12/31/16 | 23,062,421 | 2,694,521 | 2,561,220 | 1,157,820 | 14,897,968 | 50,702 |
| Additions | - | 95,295 | - | - | - | 18 |
| Write-offs, net | - | (1) | - | - | - | - |
| Net transfers | - | 186,924 | - | - | - | (24,110) |
| Amortization (Note 24) | - | (246,372) | (148,320) | (21,051) | (232,091) | (1,707) |
| Balance at 03/31/17 | 23,062,421 | 2,730,367 | 2,412,900 | 1,136,769 | 14,665,877 | 24,903 |
| Additions | - | 181,095 | - | - | - | 189 |
| Write-offs, net | - | (7,426) | - | - | - | - |
| Net transfers | - | 514,621 | - | - | - | (187) |
| Amortization | - | (698,381) | (434,037) | (63,154) | (696,271) | (3,953) |

| | | | | | | |
|---------------------------------|-------------------|------------------|------------------|------------------|-------------------|---------------|
| Business Combination (Note 1.c) | - | 530 | - | - | - | - |
| Balance at 12/31/17 | 23,062,421 | 2,720,806 | 1,978,863 | 1,073,615 | 13,969,606 | 20,952 |
| Additions | - | 47,054 | - | - | - | - |
| Net transfers | - | 117,558 | - | - | - | - |
| Amortization (Note 24) | - | (239,644) | (137,398) | (21,051) | (230,020) | (1,238) |
| Balance at 03/31/18 | 23,062,421 | 2,645,774 | 1,841,465 | 1,052,564 | 13,739,586 | 19,714 |
| At 12/31/17 | | | | | | |
| Cost | 23,062,421 | 15,125,532 | 4,513,278 | 1,658,897 | 20,237,572 | 238,201 |
| 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 |
| At 03/31/18 | | | | | | |
| Cost | 23,062,421 | 15,288,319 | 4,513,278 | 1,658,897 | 20,237,572 | 238,202 |
| Accumulated amortization | - | (12,642,545) | (2,671,813) | (606,333) | (6,497,986) | (218,488) |
| Total | 23,062,421 | 2,645,774 | 1,841,465 | 1,052,564 | 13,739,586 | 19,714 |

b) Goodwill breakdown

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

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

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

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

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

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

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)****14) PERSONNEL, SOCIAL CHARGES AND BENEFITS**

| | Company | | Consolidated | |
|--|----------------|----------------|----------------|----------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Salaries and wages | 21,185 | 37,070 | 19,134 | 40,171 |
| Social charges and benefits | 371,148 | 354,467 | 420,540 | 399,229 |
| Profit sharing | 110,571 | 247,501 | 123,130 | 273,384 |
| Share-based payment plans (Note 28) | 20,750 | 31,567 | 22,771 | 33,880 |
| Total | 523,654 | 670,605 | 585,575 | 746,664 |
| Current | 523,654 | 648,957 | 584,873 | 723,380 |
| Non-current | - | 21,648 | 702 | 23,284 |

15) TRADE ACCOUNTS PAYABLE

| | Company | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Sundry suppliers (Opex, Capex, Services e Material) | 6,171,379 | 6,380,614 | 6,497,652 | 6,683,503 |
| Amounts payable (operators, cobilling) | 898,829 | 183,250 | 187,517 | 187,976 |
| Interconnection / interlink | 237,989 | 224,777 | 237,989 | 224,777 |
| Related parties (Note 27) | 785,429 | 1,772,203 | 365,238 | 350,844 |
| Total | 8,093,626 | 8,560,844 | 7,288,396 | 7,447,100 |

16) TAXES, CHARGES AND CONTRIBUTIONS PAYABLE

| | Company | | Consolidated | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| ICMS | 1,039,598 | 1,106,507 | 1,081,705 | 1,149,137 |
| PIS and COFINS | 339,432 | 385,501 | 418,823 | 419,589 |
| Fust and Funttel | 91,259 | 93,869 | 91,259 | 93,869 |
| Fistel, ISS, CIDE and other taxes | 283,380 | 102,327 | 300,909 | 113,689 |
| Total | 1,753,669 | 1,688,204 | 1,892,696 | 1,776,284 |
| Current | 1,735,790 | 1,669,741 | 1,842,607 | 1,726,836 |
| Non-current | 17,879 | 18,463 | 50,089 | 49,448 |

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

At March 31, 2018 and December 31, 2017, the Company had R\$426,709 and R\$323,206 to be received from TData, respectively.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

| | Company |
|---|----------------|
| Balance at 12/31/17 | 323,206 |
| Supplementary dividends for 2017 of TData | 963,503 |
| Receipt of dividends of TData | (860,000) |
| Balance at 03/31/18 | 426,709 |

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

b) Dividends and interest on equity payable**b.1) Breakdown:**

| | Company / Consolidated | |
|---------------------------------------|------------------------|----------|
| | 03/31/18 | 12/31/17 |
| Telefónica Latinoamérica Holding S.L. | 505,750 | 505,750 |
| Telefónica | 609,003 | 609,003 |
| SP Telecomunicações Participações | 383,933 | 383,933 |
| Telefónica Chile | 1,070 | 1,070 |
| Non-controlling interest | | |

| | | |
|--------------|------------------|------------------|
| | 897,666 | 896,360 |
| Total | 2,397,422 | 2,396,116 |

b.2) Changes:

| | Company/ Consolidated |
|---|--------------------------|
| Balance at 12/31/17 | 2,396,116 |
| Payment of dividends and interest on equity | (367) |
| IRRF on shareholders exempt/immune from interest on equity | 1,673 |
| Balance at 03/31/18 | 2,397,422 |

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:

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of Reais, unless otherwise stated)**

| | Company | | | |
|---|------------------------------|------------------|------------------|------------------|
| | Provisions for contingencies | | | |
| | Labor | Tax | Civil | Regulator |
| Balances at 12/31/16 | 1,374,570 | 3,109,806 | 1,038,230 | 828,930 |
| Additions (income) (Note 25) | 347,204 | 49,404 | 159,242 | 25,040 |
| Write-offs due to reversal (income) (Note 25) | (231,532) | (5,882) | (55,957) | (2,137) |
| Other additions | - | 100,252 | 650 | |
| Write-offs due to payment | (114,134) | - | (96,700) | (152,000) |
| Monetary restatement | 39,089 | 112,631 | 34,923 | 21,500 |
| Balances at 03/31/17 | 1,415,197 | 3,366,211 | 1,080,388 | 873,190 |
| Additions (income) | 457,333 | 166,595 | 586,414 | 246,070 |
| Write-offs due to reversal (income) | (276,329) | (63,387) | (251,449) | (70,643) |
| Other additions (reversal) | - | - | (1,748) | |
| Write-offs due to payment | (746,564) | (158,783) | (451,821) | (6,721) |
| Write-offs due to taxes (3) | - | (66,027) | - | |
| Monetary restatement | 104,682 | 230,291 | 85,651 | 61,880 |
| Balances at 12/31/17 | 954,319 | 3,474,900 | 1,047,435 | 1,103,790 |
| Additions (income) (Note 25) | 136,116 | 48,122 | 202,750 | 1,390 |
| Write-offs due to reversal (income) (Note 25) | (54,947) | (8,602) | (92,420) | (5,455) |
| Other additions (reversal) | - | - | 216 | |
| Write-offs due to payment | (133,887) | (19,683) | (135,281) | (357,000) |
| Monetary restatement | 33,655 | 92,542 | 33,554 | 13,970 |
| Balances at 03/31/18 | 935,256 | 3,587,279 | 1,056,254 | 1,113,350 |
| At 12/31/17 | | | | |
| Current | 239,229 | - | 201,673 | 994,000 |
| Non-current | 715,090 | 3,474,900 | 845,762 | 109,780 |
| At 03/31/18 | | | | |
| Current | 225,459 | - | 184,466 | 1,002,210 |
| Non-current | 709,797 | 3,587,279 | 871,788 | 111,130 |

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of Reais, unless otherwise stated)**

| | | Consolidated | | | |
|---|------------------|------------------------------|------------------|------------------|--|
| | | Provisions for contingencies | | | |
| | Labor | Tax | Civil | Regulator | |
| Balances at 12/31/16 | 1,382,957 | 3,129,681 | 1,039,357 | 828,930 | |
| Additions (income) (Note 25) | 347,988 | 49,404 | 160,695 | 25,040 | |
| Write-offs due to reversal (income) (Note 25) | (231,887) | (5,882) | (56,309) | (2,137) | |
| Other additions | - | 100,252 | 650 | | |
| Write-offs due to payment | (114,134) | - | (96,988) | (152,000) | |
| Monetary restatement | 39,359 | 113,818 | 35,472 | 21,500 | |
| Balances at 03/31/17 | 1,424,283 | 3,387,273 | 1,082,877 | 873,190 | |
| Additions (income) (Note 25) | 461,766 | 176,721 | 587,925 | 246,070 | |
| Write-offs due to reversal (income) (Note 25) | (280,696) | (65,802) | (253,618) | (70,643) | |
| Other additions (reversal) | (492) | (6,656) | (443) | | |
| Write-offs due to payment | (751,522) | (168,407) | (454,940) | (6,721) | |
| Write-offs due to taxes (3) | - | (66,027) | - | | |
| Monetary restatement | 107,975 | 234,575 | 88,015 | 61,880 | |
| Business combination (Note 1 c) | 19,282 | 87,531 | 6,061 | | |
| Balances at 12/31/17 | 980,596 | 3,579,208 | 1,055,877 | 1,103,790 | |
| Additions (income) (Note 25) | 141,195 | 48,164 | 203,460 | 1,390 | |
| Write-offs due to reversal (income) (Note 25) | (56,818) | (8,498) | (92,547) | (5,455) | |
| Other additions (reversal) | (330) | - | 332 | | |
| Write-offs due to payment | (137,538) | (20,115) | (135,656) | (357,000) | |
| Monetary restatement | 34,864 | 93,305 | 33,801 | 13,970 | |
| Balances at 03/31/18 | 961,969 | 3,692,064 | 1,065,267 | 1,113,350 | |
| At 12/31/17 | | | | | |
| Current | 239,229 | - | 201,673 | 994,000 | |
| Non-current | 741,367 | 3,579,208 | 854,204 | 109,780 | |
| At 03/31/18 | | | | | |
| Current | 225,459 | - | 184,466 | 1,002,210 | |
| Non-current | 736,510 | 3,692,064 | 880,801 | 111,130 | |

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

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

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

a) Provisions and labor contingencies

| <u>Nature/Degree of Risk</u> | Amounts involved | | | |
|------------------------------|---------------------|----------|--------------------------|----------|
| | Company 03/31/18 | 12/31/17 | Consolidated 03/31/18 | 12/31/17 |
| Provisions - probable losses | 935,256 | 954,319 | 961,969 | 980,596 |
| Possible losses | 181,377 | 210,211 | 228,412 | 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 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.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

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

b) Provisions and tax contingencies

| <u>Nature/Degree of Risk</u> | Amounts involved | | | |
|------------------------------|---------------------|------------|--------------------------|------------|
| | Company 03/31/18 | 12/31/17 | Consolidated 03/31/18 | 12/31/17 |
| Provisions - probable losses | 3,587,279 | 3,474,900 | 3,692,064 | 3,579,208 |
| Federal | 428,055 | 420,128 | 510,672 | 502,153 |
| State | 307,603 | 231,667 | 307,603 | 231,998 |
| Municipal | 32,690 | 32,054 | 32,690 | 32,054 |
| FUST, FISTEL and EBC | 2,818,931 | 2,791,051 | 2,841,099 | 2,813,003 |
| Possible losses | 31,596,809 | 34,029,094 | 33,051,650 | 35,388,910 |
| Federal | 8,004,524 | 7,936,925 | 8,329,214 | 8,226,374 |
| State | 15,563,351 | 18,015,683 | 16,523,416 | 18,968,349 |
| Municipal | 575,767 | 542,084 | 581,723 | 548,014 |

| | | | | |
|----------------------------------|-----------|-----------|-----------|-----------|
| FUST, FUNTTEL, FISTEL and EBC | 7,453,167 | 7,534,402 | 7,617,297 | 7,646,173 |
|----------------------------------|-----------|-----------|-----------|-----------|

b.1) Probable tax contingencies

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

Federal Taxes

The Company and/or its subsidiaries are parties to administrative and legal proceedings relating to: (i) claims resulting from the non-ratification of compensation and refund requests formulated; (ii) CIDE levied on the remittance of amounts abroad related to technical and administrative assistance and similar services, as well as royalties; (iii) IRRF on interest on equity; (iv) Social Investment Fund (Finsocial) offset amounts; and (v) additional charges to the PIS and COFINS tax base, as well as additional charges to COFINS required by Law No. 9,718/98.

At March 31, 2018, consolidated provisions totaled R\$510,672 (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 credits; (ii) telecommunications services not subject to ICMS; (iii) tax credit for challenges / disputes over telecommunication services not provided or wrongly charged (Agreement 39/01); (iv) rate difference of ICMS; (v) ICMS on rent of infrastructure necessary for internet (data) services; and (vi) outflows of goods with prices lower than those of acquisition.

At March 31, 2018, consolidated provisions totaled R\$307,603 (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 equipment leasing services, non-core activities and supplementary activities; and (iii) withholding of ISS on contractors' services.

At March 31, 2018, consolidated provisions totaled R\$32,690 (R\$32,054 at December 31, 2017).

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NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

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

FUST, FISTEL and EBC

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

At March 31, 2018, consolidated provisions totaled R\$2,841,099 (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, FISTEL and EBC) are described below:

Federal taxes

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

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

At March 31, 2018, consolidated amounts involved totaled R\$8,329,214 (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, which are awaiting decisions in different court levels.

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

At March 31, 2018, consolidated amounts involved totaled R\$16,523,416 (R\$18,968,349 at December 31, 2017).

Municipal taxes

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

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

At March 31, 2018, consolidated amounts involved totaled R\$581,723 (R\$548,014 at December 31, 2017).

FUST, FUNTTEL, FISTEL and EBC

Universal Telecommunications Services Fund ("FUST")

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

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 March 31, 2018, consolidated amounts involved totaled R\$4,481,532 (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.

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At March 31, 2018, consolidated amounts involved totaled R\$554,548 (R\$493,867 at December 31, 2017).

Telecommunications Inspection Fund ("FISTEL") and Contribution to Empresa Brasil de Comunicação ("EBC")

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; (ii) extensions of the period of validity of the right to use radiofrequency associated with the operation of the telephone service personal mobile service; and (iii) Contribution to Empresa Brasil de Comunicação ("EBC").

At March 31, 2018, consolidated amounts involved totaled R\$2,581,217 (R\$2,835,735 at December 31, 2017).

b.3) Exclusion of ICMS on the basis of calculation of PIS and COFINS

On March 20, 2018, the Superior Court of Justice passed a decision in favor of the Company, which recognized the right to deduct ICMS from the calculation basis of PIS and COFINS contributions, for the period from September 2003 to July 2014 in accordance with CPC 00 (R1) - Conceptual Framework for Elaboration and Disclosure of Financial Reporting (Recognition of Financial Statements) / Conceptual Framework for Financial Reporting (Measurement uncertainty), an item must be recognized if it is probable that some future economic benefit associated with the item flows to the entity and the item has value that can be reliably measured, that is, completely, neutral and error-free.

Due to the fact that the determination of the value of the asset involves the processing of a large volume of information to be extracted and analyzed for the period 2003-2014, encompassing several billing systems and legacy systems, with different ICMS tax rates for the provision of services in all Brazilian States, due to the various restructurings that took place over the period, among others, it was not practicable for the Company to reliably measure the value of the asset, and the corresponding gain, and proceed with its due accounting record in the quarterly information for the quarter ended March 31, 2018, when the change of estimate occurred. In view of this, the Company is in the process of quantifying the amounts paid over for the referred period and will record the assets and the corresponding gain, as soon as the value is measured with reliability. The Company expects to complete this process in 2018.

c) Provisions civil contingencies

| <u>Nature/Degree of Risk</u> | Amounts involved | | | |
|------------------------------|---------------------|-----------|-----------|--------------------------|
| | Company 03/31/18 | 12/31/17 | | Consolidated 03/31/18 |
| Provisions - probable losses | 1,056,254 | 1,047,435 | 1,065,267 | 1,055,877 |
| Possible losses | 2,901,342 | 2,840,894 | 2,917,639 | 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 March 31, 2018, consolidated provisions totaled R\$306,238 (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 March 31, 2018, consolidated provisions totaled R\$339,510 (R\$296,169 at December 31, 2017).

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- 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 March 31, 2018, consolidated provisions totaled R\$419,519 (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 March 31, 2018, the consolidated amount totaled R\$2,887,467 (R\$2,827,071 at December 31, 2017).
- TGLog (company controlled by TData) is a party to the civil enforcement action process in the 3rd Civil Court of Barueri - SP for the allegation of contractual noncompliance with the transportation of goods. At March 31, 2018, the amount was R\$184 (R\$178 at December 31, 2017).
- 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 March 31, 2018, the amount was R\$15,781 (R\$17,340 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 March 31, 2018, the amount was R\$14,207 (R\$14,207 at December 31, 2017).
- Intellectual Property: Lune Projetos Especiais Telecomunicação Comércio e Ind. Ltda. (Lune), a Brazilian company, filed an action on November 20, 2001 against 23 wireless carriers claiming to own the patent for caller ID and the trademark "Bina". The purpose of that lawsuit was to interrupt provision of such service by carriers and to seek indemnification equivalent to the amount paid by consumers for using the service.

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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. At the present time, we await the judgment of the regimental grievance filed against a decision prior to the judgment, which rejected the application of the former lawyers of Lune as assistants of the author. There is no way to determine the extent of potential liabilities with respect to this claim.

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

d) Provisions and regulatory contingencies

| <u>Nature/Degree of Risk</u> | Company | | Amounts involved | |
|------------------------------|-----------|-----------|------------------|-----------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Provisions - probable losses | 1,113,352 | 1,103,792 | 1,113,352 | 1,103,792 |
| Possible losses | 5,125,880 | 5,065,907 | 5,125,880 | 5,065,907 |

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

The Company is party to administrative proceedings against ANATEL, filed based on an alleged failure to meet sector regulations, and to judicial proceedings to contest sanctions applied by ANATEL at the administrative level. At March 31, 2018, consolidated provisions totaled R\$1,113,352 (R\$1,103,792 at December 31, 2017).

d.2) Regulatory contingencies assessed as possible losses**According to the Company's management and legal counsel, the likelihood of loss of the following regulatory civil proceedings is possible:**

- The Company is party to administrative proceedings filed by ANATEL alleging noncompliance with the obligations set forth in industry regulations, as well as legal claims which discuss the sanctions applied by ANATEL at the administrative level. At March 31, 2018, the consolidated amount was R\$5,125,880 (R\$5,065,907 at December 31, 2017).

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

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

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

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

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

On March 8, 2018, ANATEL ultimately adjudicated fines in the amount of R\$700 million, which have been withdrawn from the TAC. As a result of this fact, the Company is re-evaluating the scope of the TAC.

e) Guarantees

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

| | Consolidated | | | | | |
|----------------------|------------------------|------------------------------------|----------------------|------------------------|------------------------------------|----------------------|
| | | 03/31/18 | | | 12/31/17 | |
| | Property and equipment | Judicial deposits and garnishments | Letters of guarantee | Property and equipment | Judicial deposits and garnishments | Letters of guarantee |
| Civil, labor and tax | 170,566 | 6,728,530 | 1,586,710 | 176,591 | 6,663,805 | 1,669,476 |
| Total | 170,566 | 6,728,530 | 1,586,710 | 176,591 | 6,663,805 | 1,669,476 |

At March 31, 2018, in addition to the guarantees presented above, the Company and its subsidiaries had amounts under short-term investment frozen by courts (except for loan-related investments) in the consolidated amount of R\$75,662 (R\$69,764 at December 31, 2017).

19) DEFERRED REVENUE

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

| | Company | | Consolidated | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Services and goods (1) | 294,390 | 301,292 | 294,390 | 301,292 |
| Disposal of PP&E (2) | 165,066 | 165,162 | 165,066 | 165,162 |
| Activation revenue (3) | 5,608 | 7,477 | 6,090 | 7,959 |
| Customer loyalty program (4) | 52,330 | 50,354 | 52,330 | 50,354 |
| Government grants (5) | 110,545 | 115,379 | 110,545 | 115,379 |
| Contractual Liabilities - IFRS 15 (6) | 182,199 | - | 182,199 | - |
| Other (7) | 79,458 | 81,466 | 85,739 | 83,052 |
| Total | 889,596 | 721,130 | 896,359 | 723,198 |
| Current | 508,765 | 370,493 | 515,528 | 372,561 |
| Non-current | 380,831 | 350,637 | 380,831 | 350,637 |

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

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

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

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

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

(6) Refers to the balance of contractual liabilities arising from the adoption of IFRS 15 (Note 2.b).

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

20) LOANS, FINANCING AND DEBENTURES

a) Breakdown

On March 31, 2018, the contractual terms of the loans and financing are the same as in Note 20) Loans, Financing and Debentures, disclosed in the financial statements for the fiscal year ended December 31, 2017.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

| | Information as of March 31, 2018 | | | | Company / Consolidated 03/31/18 | | | 12/31/17 | |
|---|----------------------------------|----------------------------------|------------------|-----------|------------------------------------|------------------|------------------|------------------|------------------|
| | Currency | Annual interest rate | Maturity | Garantees | Current | Non-current | Total | Current | Non-current |
| <u>Local currency</u> | | | | | 1,269,510 | 2,049,514 | 3,319,024 | 1,478,656 | 2,237,000 |
| Financial Institutions (a.1) | | | | | 821,259 | 1,260,222 | 2,081,481 | 820,468 | 1,456,000 |
| BNDES FINEM | URTJLP | TJLP+ 0 to 4.08% | 7/15/2019 | (1) | 370,888 | 122,722 | 493,610 | 371,946 | 213,000 |
| BNDES FINEM | URTJLP | TJLP+ 0 to 3.38% | 8/15/2020 | (3) | 184,159 | 258,485 | 442,644 | 184,007 | 303,000 |
| BNDES FINEM | R\$ | 5.00% | 11/15/2019 | (3) | 14,646 | 9,729 | 24,375 | 14,654 | 13,000 |
| BNDES FINEM | URTJLP | TJLP+ 0 to 3.12% | 1/15/2023 | (3) | 103,291 | 388,923 | 492,214 | 101,879 | 413,000 |
| BNDES FINEM | R\$ | 4.00% to 6.00% | 1/15/2023 | (3) | 37,939 | 122,698 | 160,637 | 37,061 | 132,000 |
| BNDES FINEM | R\$ | Selic Acum. D-2 + 2.32% | 1/15/2023 | (3) | 76,457 | 291,800 | 368,257 | 70,426 | 305,000 |
| BNDES PSI | R\$ | 2.5% to 5.5% | 1/15/2023 | (2) | 18,810 | 14,876 | 33,686 | 25,405 | 19,000 |
| BNB | R\$ | 7.06% to 10% | 8/18/2022 | (4) | 15,069 | 50,989 | 66,058 | 15,090 | 54,000 |
| Suppliers (a.2) | R\$ | | 3/31/2019 | | | | - | | |

| | | | | | | | | | |
|---|------------|---|------------------|-----|------------------|------------------|------------------|------------------|--------------|
| | | 101.7% a 109.7% of CDI | | | 395,320 | | 395,320 | 607,152 | |
| Finance lease (a.3) | R\$ | IPCA and IGP-M | 8/31/2033 | | 52,931 | 338,208 | 391,139 | 51,036 | 334 |
| Contingent Consideration (a.4) | R\$ | Selic | | | - | 451,084 | 451,084 | - | 446 |
| <u>Foreign Currency</u> | | | | | 142,576 | 47,403 | 189,979 | 142,299 | 82 |
| Financial Institutions (a.1) | | | | | 142,576 | 47,403 | 189,979 | 142,299 | 82 |
| BNDES FINEM | UMBND | ECM + 2.38% | 7/15/2019 | (1) | 142,576 | 47,403 | 189,979 | 142,299 | 82 |
| Total | | | | | 1,412,086 | 2,096,917 | 3,509,003 | 1,620,955 | 2,320 |

Guarantees:

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

(2) Pledge of financed assets.

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

(4) Bank guarantee in an amount equivalent to 100% of the outstanding financing debt balance. Setting up a liquidity fund represented by financial investments in the amount equivalent to three installments of repayment referenced to the average post-grace period performance. Balances were R\$11,907 and R\$11,722 at March 31, 2018 and December 31, 2017, respectively.

a.1) Loans and financing

Some financing agreements with the BNDES described above, have lower interest rates than those prevailing on the market. These operations fall within the scope of IAS 20 / CPC 7 and thus the subsidies granted by BNDES were adjusted to present value deferred in accordance with the useful lives of the financed assets, resulting in a balance until March 31, 2018 of R\$29,488 (R\$32,155 at December 31, 2017), Note 19.

a.2) Financing - Suppliers

Under bilateral agreements with suppliers, the Company obtained extension of the terms for payment of trade accounts payable at a cost based on fixed CDI rate for the corresponding periods, with the net cost equivalent to between 101.7% to 109.7 of CDI (101.4% to 109.4% of CDI at December 31, 2017).

a.3) Finance lease

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

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

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

| | Company / Consolidated | |
|-------------------------------|------------------------|----------------|
| | 03/31/18 | 12/31/17 |
| Nominal value payable | 780,345 | 787,147 |
| Unrealized financial expenses | (389,206) | (401,687) |
| Present value payable | 391,139 | 385,460 |
| Current | 52,931 | 51,036 |
| Non-current | 338,208 | 334,424 |

Aging list of finance lease payable at March 31, 2018 is as follows:

| | Company / Consolidated | |
|-------------------|------------------------|-----------------------|
| | Nominal value payable | Present value payable |
| Up to 1 year | 60,264 | 52,931 |
| From 1 to 5 years | | |

| | | |
|-----------------|----------------|----------------|
| | 201,027 | 144,706 |
| Over five years | 519,054 | 193,502 |
| Total | 780,345 | 391,139 |

There are no unsecured residual values resulting in benefits to the lessor or contingent payments recognized as revenue at March 31, 2018 and December 31, 2017.

a.4) Contingent consideration

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

b) Debentures

The contractual terms of the debentures are the same as in Note 20) Loans, Financing and Debentures, disclosed in the financial statements for the fiscal year ended December 31, 2017.

Information on the debentures at March 31, 2018 and December 31, 2017:

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| Issue | Issue date | Maturity | Information as of March 31, 2018 | | Company / Consolidated | | 03/31/18 | | T |
|----------------------------------|------------|------------|----------------------------------|-------------|------------------------|------------------------------|------------------|------------------|---------------|
| | | | Issued | Outstanding | Issue value | Remuneration p.a. | Current | Non-current | |
| 4th issue – Series 3 | 10/15/2009 | 10/15/2019 | 810,000 | 23,557 | 810,000 | IPCA+4.00% | 688 | 40,447 | 41, |
| 1st issue – Minas Comunica | 12/17/2007 | 7/5/2021 | 5,550 | 5,550 | 55,500 | IPCA+0.50% 100% of CDI | 25,522 | 76,565 | 102, |
| 4th issue | 4/25/2013 | 4/25/2018 | 130,000 | 130,000 | 1,300,000 | + 0.68% 108.25% of CDI | 1,340,659 | - | 1,340, |
| 5th issue | 2/8/2017 | 2/8/2022 | 200,000 | 200,000 | 2,000,000 | 100% of CDI | 17,101 | 1,996,864 | 2,013, |
| 6th issue | 11/27/2017 | 11/27/2020 | 100,000 | 100,000 | 1,000,000 | + 0.24% | 22,773 | 999,535 | 1,022, |
| Total | | | | | | | 1,406,743 | 3,113,411 | 4,520, |

Transaction costs in connection with the 4th, 5th and 6th issues, totaling R\$5,001 at March 31, 2018 (R\$5,422 at December 31, 2017, 4th, 5th and 6th issues), were allocated as a reduction of liabilities as costs to be incurred and are recognized as financial expenses, according to the contractual terms of each issue.

c) Repayment schedule

At March 31, 2018, breakdown of non-current loans, financing, finance lease, debentures and contingent consideration by year of maturity is as follows:

| <u>Year</u> | Company / Consolidated | | | | Total |
|--------------|------------------------|------------------|----------------|--------------------------|------------------|
| | Loans and financing | Debentures | Finance lease | Contingent Consideration | |
| 2019 | 501,177 | 65,968 | 44,812 | - | 611,957 |
| 2020 | 355,177 | 1,025,522 | 35,532 | - | 1,416,231 |
| 2021 | 227,618 | 1,025,522 | 33,599 | - | 1,286,739 |
| 2022 | 205,802 | 996,399 | 32,259 | - | 1,234,460 |
| 2023 onwards | 17,851 | - | 192,006 | 451,084 | 660,941 |
| Total | 1,307,625 | 3,113,411 | 338,208 | 451,084 | 5,210,328 |

d) Covenants

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

At March 31, 2018 and December 31, 2017 all economic and financial indexes established in existing contracts have been achieved.

e) Changes

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

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| | Loans and financing | Debentures | Company / Finance lease | Consolidated Financing - Suppliers | Contingent Consideration | Total |
|---|------------------------|------------------|-------------------------------|--|-----------------------------|-------------------|
| Balance at 12.31.16 | 4,158,015 | 3,554,307 | 374,428 | 722,591 | 414,733 | 9,224,074 |
| Additions | - | 2,000,000 | 2,163 | 146,483 | - | 2,148,646 |
| Financial charges (Note 26) | 99,417 | 144,841 | 21,310 | 18,914 | 9,569 | 294,051 |
| Issue costs | - | (5,329) | - | - | - | (5,329) |
| Foreign exchange variation (Note 26) | (40,224) | - | - | - | - | (40,224) |
| Write-offs (reversal) | - | - | (3,032) | - | - | (3,032) |
| Write-offs (payments) | (276,551) | (136,460) | (14,688) | (367,619) | - | (795,318) |
| Balance at 03.31.17 | 3,940,657 | 5,557,359 | 380,181 | 520,369 | 424,302 | 10,822,868 |
| Additions | 55,876 | 1,000,000 | 11,299 | 424,961 | - | 1,492,136 |
| Government grants (Note 19) | (1,581) | - | - | - | - | (1,581) |
| Financial charges | 200,736 | 340,454 | 23,955 | 51,689 | 21,842 | 638,676 |
| Issue costs | - | 403 | - | - | - | 403 |
| Foreign exchange variation | 56,070 | - | - | - | - | 56,070 |
| Write-offs (reversal) | - | - | 3,032 | - | - | 3,032 |
| | | | | | | - |

| | | | | | | |
|---|------------------|------------------|----------------|----------------|----------------|------------------|
| Write-offs (payments) | (1,749,412) | (2,377,477) | (33,007) | (389,867) | | (4,549,763) |
| Balance at 12.31.17 | 2,502,346 | 4,520,739 | 385,460 | 607,152 | 446,144 | 8,461,841 |
| Additions | - | - | 6,100 | 126,411 | - | 132,511 |
| Government grants (Note 19) | (40) | - | - | - | - | (40) |
| Financial charges (Note 26) | 48,299 | 81,118 | 14,521 | 8,377 | 4,940 | 157,255 |
| Issue costs | - | 421 | - | - | - | 421 |
| Foreign exchange variation (Note 26) | 270 | - | - | - | - | 270 |
| Write-offs (payments) | (279,415) | (82,124) | (14,942) | (346,620) | - | (723,101) |
| Balance at 03.31.18 | 2,271,460 | 4,520,154 | 391,139 | 395,320 | 451,084 | 8,029,157 |

The following is a summary of funding and payments made during the year ended March 31, 2018.

| | Principal | Write-offs (payments) Financial charges | Total |
|---------------------|------------------|---|------------------|
| Loans and financing | (227,820) | (51,595) | (279,415) |
| BNDES | (224,089) | (50,464) | (274,553) |
| BNB | (3,731) | (1,131) | (4,862) |
| Debêntures | - | (82,124) | (82,124) |
| 5th issue | - | (82,124) | (82,124) |
| Suppliers | (322,245) | (24,375) | (346,620) |
| Finance lease | (10,991) | (3,951) | (14,942) |
| Total | (561,056) | (162,045) | (723,101) |

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)****21) OTHER LIABILITIES**

| | Company | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 03/31/18 | 12/31/17 | 03/31/18 | 12/31/17 |
| Authorization licenses (1) | 119,221 | 258,742 | 119,221 | 258,742 |
| Liabilities with related parties (Note 27) | 79,737 | 139,173 | 81,183 | 125,987 |
| Payment for license renewal (2) | 187,659 | 167,536 | 187,659 | 167,536 |
| Third-party withholdings (3) | 115,500 | 126,361 | 130,592 | 144,593 |
| Surplus from post-employment benefit plans (Note 29) | 534,493 | 522,498 | 544,361 | 531,938 |
| Amounts to be refunded to subscribers | 201,033 | 187,826 | 202,514 | 189,380 |
| Other liabilities | 69,895 | 70,108 | 69,055 | 72,893 |
| Total | 1,307,538 | 1,472,244 | 1,334,585 | 1,491,069 |
| Current | 528,383 | 700,251 | 546,557 | 718,468 |
| Non-current | 779,155 | 771,993 | 788,028 | 772,601 |

(1) As December 31, 2017, includes a portion of the Company's liability arising from an agreement entered into with ANATEL, whereby the operators that won the auction of the 4G licenses organized Entidade Administradora do Processo de Redistribuição e Digitalização de Canais de TV e RTV ("EAD"), which will be responsible for equally performing all TV and RTV channel redistribution procedures and solutions to harmful interference in radio communication systems, in addition to other operations in which the winning operators have obligations, as defined in the agreement. On January 31, 2018, the Company paid R\$142,862 to EAD, referring to the 4th installments of the auction of 700 MHz national frequency bands for the provision of SMP, performed by ANATEL on September 30, 2014.

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

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

22) EQUITY

a) Capital

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

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

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

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

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

Subscribed and paid-in capital at March 31, 2018 and December 31, 2017 amounted to R\$63,571,416, divided into shares without par value, held as follows:

| Shareholders | Common Shares | | Preferred Shares | | Grand Total | |
|--|----------------------|----------------|-------------------------|----------------|----------------------|---------------|
| | Number | % | Number | % | Number | % |
| Controlling Group | 540,033,264 | 94.47% | 704,207,855 | 62.91% | 1,244,241,119 | 73.5% |
| Telefônica Latinoamérica Holding, S.L. | 46,746,635 | 8.18% | 360,532,578 | 32.21% | 407,279,213 | 24.0% |
| Telefônica S.A. | 198,207,608 | 34.67% | 305,122,195 | 27.26% | 503,329,803 | 29.7% |
| SP Telecomunicações Participações Ltda | 294,158,155 | 51.46% | 38,537,435 | 3.44% | 332,695,590 | 19.6% |
| Telefônica Chile S.A. | 920,866 | 0.16% | 15,647 | 0.00% | 936,513 | 0.0% |
| Other shareholders | 29,320,789 | 5.13% | 415,131,868 | 37.09% | 444,452,657 | 26.2% |
| Treasury Shares | 2,290,164 | 0.40% | 983 | 0.00% | 2,291,147 | 0.1% |
| Total shares | 571,644,217 | 100.00% | 1,119,340,706 | 100.00% | 1,690,984,923 | 100.0% |
| Treasury Shares | (2,290,164) | | (983) | | (2,291,147) | |

| | | | |
|---------------------------------|--------------------|----------------------|----------------------|
| Total shares outstanding | 569,354,053 | 1,119,339,723 | 1,688,693,776 |
|---------------------------------|--------------------|----------------------|----------------------|

b) Capital reservesb.1) Special goodwill reserve

This represents the tax benefit generated by the merger of Telefonica Data do Brasil Ltda. which will be capitalized in favor of the controlling shareholders (SPTE Participações Ltda.) after the tax credits are realized under the terms of CVM Ruling No. 319/99.

b.2) Other capital reserves

The breakdown at March 31, 2018 and December 31, 2017 is as follows.

Excess of the value in the issue or capitalization, in relation to the basic value of the share on the issue date (1)
 Cancellation of treasury shares according to the Special Shareholders' Meeting (SGM) of 3/12/15 (2)
 Direct costs of capital increases (3)

Incorporation of shares of GVTPart. (4)
 Effects of the acquisition of Lemontree and GTR by Company and Tglog by TData (5)
 Preferred shares delivered referring to the judicial process of expansion plan (6)
 Effects of the acquisition of Terra Networks Brasil by TData (7)

Total

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

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Three-month period ended March 31, 2018

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

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

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

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

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

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

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

b.3) Treasury shares

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

c) Income reserves

c.1) Legal reserve

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

c.2) Special Reserve for Expansion and Modernization

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

c.3) Tax Incentives Reserve

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

d) Dividend and interest on equity

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Three-month period ended March 31, 2018

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d.1) Additional dividends proposed for 2017

As per management's proposal for allocation of net income on December 31, 2017, the Company classified R\$2,191,864 as proposed additional dividend. This proposal will be submitted to the Annual Shareholders' Meeting to be held in the second quarter of 2018.

d.2) Unclaimed dividends and interest on equity

Pursuant to Article 287, paragraph II, item "a" of Law No. 6404, of December 15, 1976, the dividends and interest on equity unclaimed by shareholders expire in 3 (three) years, as from the initial payment date. The Company reverses the amount of unclaimed dividends and IOE to equity upon expiry.

e) Other comprehensive income

Financial instruments available for sale: These refer to changes in fair value of financial assets available for sale.

Derivative financial instruments: These refer to the effective part of cash flow hedges up to the balance sheet date.

Currency translation effects for foreign investments: This refers to currency translation differences arising from the translation of financial statements of Aliança (jointly-controlled entity).

Changes in other comprehensive income are as follows:

| | Financial instruments available for sale | Derivative transactions | Consolidated Currency translation effects - foreign investments | Total |
|--|---|----------------------------|--|---------------|
| Balances at 12/31/16 | (8,881) | 3,549 | 16,793 | 11,461 |
| Exchange variation | - | - | (1,051) | (1,051) |
| Gains from future contracts | - | 4,047 | - | 4,047 |
| Gains on financial assets available for sale | 307 | - | - | 307 |
| Balances at 03/31/17 | (8,574) | 7,596 | 15,742 | 14,764 |
| Exchange variation | - | - | 12,290 | 12,290 |
| Losses from future contracts | - | (5,642) | - | (5,642) |
| Losses on financial assets available for sale | (84) | - | - | (84) |
| Balances at 12/31/17 | (8,658) | 1,954 | 28,032 | 21,328 |
| Exchange variation | - | - | 2,680 | 2,680 |
| Losses from future contracts | - | (509) | - | (509) |
| Gains on financial assets available for sale | 13 | - | - | 13 |
| Balances at 03/31/18 | (8,645) | 1,445 | 30,712 | 23,512 |

f) Company Share Repurchase Program

In a meeting held on June 9, 2017, the Company's Board of Directors, in accordance with Article 17, item XV, of the Articles of Incorporation, approved the repurchase of common and preferred shares issued by the Company, under CVM Ruling No. 567, of September 17, 2015, for acquisition of common and preferred shares issued by the Company for subsequent cancellation, disposal or to be held in treasury, without decreasing capital, to increase shareholder value through the efficient application of available cash resources and optimize the Company's capital allocation.

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Three-month period ended March 31, 2018

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

The repurchase will be made through the use of the capital reserve balance included in the balance sheet as at March 31, 2017, excluding the reserves referred to in Article 7, paragraph 1, of CVM Instruction 567, of September 17, 2015.

This program is effective until December 8, 2018, with the acquisitions made at B3, at market prices, observing the legal and regulatory limits, being the maximum amounts to be acquired of 870,781 common shares and 41,510,761 preferred shares.

On June 1, 2017 and July 5, 2017, the Company acquired 45 and 661 preferred shares issued by the Company at an average unit price of R\$47.31 and R\$45.26, respectively, totaling R\$32.

g) Earnings per share

Basic and diluted earnings per share were calculated by dividing profit attributed to the Company's shareholders by the weighted average number of outstanding common and preferred shares for the year.

The following table shows the calculation of earnings per share for the quarters ended March 31, 2018 and 2017:

| | Company 1st quarter of 2018 | 1st quarter of 2017 |
|-------------------------|-----------------------------------|------------------------|
| Net income for the year | 1,098,019 | 996,197 |

| | | |
|--|-----------|-----------|
| Common shares | 347,191 | 314,995 |
| Preferred shares | 750,828 | 681,202 |
| Number of shares (thousands): | 1,688,694 | 1,688,694 |
| Weighted average number of outstanding common shares for the year | 569,354 | 569,354 |
| Weighted average number of outstanding preferred shares for the year | 1,119,340 | 1,119,340 |
| Basic and diluted earnings per share: | | |
| Common shares | 0.61 | 0.55 |
| Preferred shares | 0.67 | 0.61 |

23) NET OPERATING REVENUE

| | Company | | Consolidated | |
|--|------------------------|------------------------|------------------------|------------------------|
| | 1st quarter of 2018 | 1st quarter of 2017 | 1st quarter of 2018 | 1st quarter of 2017 |
| Gross operating revenue (1) | 14,472,602 | 15,979,142 | 16,334,390 | 16,570,394 |
| Deductions from gross operating revenue | (5,329,802) | (5,899,496) | (5,545,429) | (5,980,244) |
| Taxes | (3,549,776) | (4,119,220) | (3,762,895) | (4,197,975) |
| Discounts granted and return of goods | (1,780,026) | (1,780,276) | (1,782,534) | (1,782,269) |
| Net operating revenue | 9,142,800 | 10,079,646 | 10,788,961 | 10,590,150 |

(1) These include telephone services, use of interconnection network, data and SVA services, cable TV, other services and sale of goods (handsets, simcards and accessories).

No one customer accounted for more than 10% of gross operating revenues in the quarters ended March 31, 2018 and 2017.

All amounts in net income are included in income and social contribution tax bases.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of Reais, unless otherwise stated)**

The information for the first quarter of 2018 includes the effects of the adoption of IFRS 15. To facilitate the understanding and comparability of information, the Company discloses in Note 33 the consolidated income statement for the three-month period ended March 31, 2018, excluding the effects of adopting IFRS 15.

24) OPERATING COSTS AND EXPENSES

| | Company | | | | | | |
|---|----------------------------|---|-------------------------------------|-------------|----------------------------|---|-------------------------------------|
| | Cost of sales and services | 1st quarter of 2018 Selling expenses | General and administrative expenses | Total | Cost of sales and services | 1st quarter of 2017 Selling expenses | General and administrative expenses |
| Personnel | (183,483) | (552,505) | (86,303) | (822,291) | (196,275) | (573,415) | (128,951) |
| Third-party services | (1,170,704) | (1,471,527) | (288,499) | (2,930,730) | (1,196,345) | (1,608,319) | (305,297) |
| Interconnection and network use | (284,110) | - | - | (284,110) | (392,978) | - | - |
| Advertising and publicity | - | (210,455) | - | (210,455) | - | (207,170) | - |
| Rental, insurance, condominium and connection means | (691,911) | (36,606) | (44,978) | (773,495) | (620,287) | (35,869) | (49,597) |
| Taxes, charges and contributions | (406,222) | (8,261) | (9,872) | (424,355) | (443,664) | (11,008) | (13,818) |
| Estimated impairment losses on accounts | - | (356,007) | - | (356,007) | - | (327,248) | - |

| | | | | | | | |
|--|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|------------------|
| receivable | | | | | | | |
| Depreciation and amortization (1) | (1,536,878) | (334,147) | (118,665) | (1,989,690) | (1,463,041) | (360,905) | (112,186) |
| Cost of goods sold | (434,544) | - | - | (434,544) | (446,846) | - | - |
| Materials and other operating costs and expenses | (17,885) | (46,191) | (2,758) | (66,834) | (19,962) | (32,054) | (6,381) |
| Total | (4,725,737) | (3,015,699) | (551,075) | (8,292,511) | (4,779,398) | (3,155,988) | (616,230) |

| | Consolidated | | | | | | |
|---|----------------------------|---|-------------------------------------|-----------------------|----------------------------|---|-------------------------------------|
| | Cost of sales and services | 1st quarter of 2018 Selling expenses | General and administrative expenses | Consolidated Total | Cost of sales and services | 1st quarter of 2017 Selling expenses | General and administrative expenses |
| Personnel | (216,729) | (636,877) | (105,649) | (959,255) | (204,065) | (575,834) | (132,015) |
| Third-party services | (1,369,037) | (1,518,051) | (302,688) | (3,189,776) | (1,415,741) | (1,599,161) | (296,759) |
| Interconnection and network use | (284,110) | - | - | (284,110) | (392,978) | - | - |
| Advertising and publicity | - | (217,740) | - | (217,740) | - | (207,170) | - |
| Rental, insurance, condominium and connection means | (691,113) | (36,820) | (54,830) | (782,763) | (623,694) | (36,109) | (49,654) |
| Taxes, charges and contributions | (413,712) | (8,283) | (9,978) | (431,973) | (457,453) | (11,008) | (14,753) |
| Estimated impairment losses on accounts receivable | - | (398,080) | - | (398,080) | - | (357,743) | - |
| Depreciation and amortization (1) | (1,543,039) | (334,157) | (121,094) | (1,998,290) | (1,470,390) | (360,915) | (112,305) |
| Cost of goods sold | (484,359) | - | - | (484,359) | (472,747) | - | - |
| Materials and other operating costs and expenses | (18,831) | (48,694) | (6,577) | (74,102) | (21,363) | (34,198) | (6,515) |

Total (5,020,930) (3,198,702) (600,816) (8,820,448) (5,058,431) (3,182,138) (612,001)

(1) Includes R\$884, related to non-cumulative PIS and COFINS tax credits for the quarter ended March 31, 2017.

25) OTHER OPERATING INCOME (EXPENSES)

| | Company | | Consolidated | |
|---|------------------------|------------------------|------------------------|------------------------|
| | 1st quarter of 2018 | 1st quarter of 2017 | 1st quarter of 2018 | 1st quarter of 2017 |
| Recovered expenses and fines | 79,037 | 114,191 | 88,644 | 115,625 |
| Provisions for labor, tax and civil contingencies | (209,503) | (257,076) | (213,440) | (258,606) |
| Net gain (loss) on asset disposal/loss | 587 | (549) | 789 | (5,751) |
| Other operating income (expenses) | 238,169 | (37,187) | (48,328) | (18,566) |
| Total | 108,290 | (180,621) | (172,335) | (167,298) |
| Other operating income | 317,793 | 114,191 | 89,433 | 115,625 |
| Other operating expenses | (209,503) | (294,812) | (261,768) | (282,923) |
| Total | 108,290 | (180,621) | (172,335) | (167,298) |

26) FINANCIAL INCOME (EXPENSES)

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

| | Company | | Consolidated | |
|---|------------------------|------------------------|------------------------|------------------------|
| | 1st quarter of 2018 | 1st quarter of 2017 | 1st quarter of 2018 | 1st quarter of 2017 |
| Financial Income | | | | |
| Interest income | 58,128 | 172,275 | 71,967 | 190,193 |
| Interest receivable (customers, taxes and other) | 26,205 | 36,873 | 30,184 | 37,346 |
| Gain on derivative transactions | 55,613 | 94,442 | 56,579 | 94,442 |
| Foreign exchange variations on loans and financing | 9,347 | 62,677 | 9,347 | 62,677 |
| Other revenues from foreign exchange and monetary variation | 81,134 | 118,759 | 83,321 | 121,815 |
| Other financial income | 19,803 | 40,598 | 27,598 | 47,441 |
| Total | 250,230 | 525,624 | 278,996 | 553,914 |
| Financial Expenses | | | | |
| Loan, financing, debenture and finance lease charges | (157,255) | (294,051) | (157,255) | (294,051) |
| Foreign exchange variation on loans and financing | (9,616) | (22,453) | (9,617) | (22,453) |
| Loss on derivative transactions | (48,073) | (143,697) | (48,839) | (143,697) |
| Interest payable (financial institutions, provisions, trade accounts payable, taxes and other) | (29,108) | (35,686) | (29,875) | (36,573) |
| Other expenses with foreign exchange and monetary variation | (166,969) | (284,467) | (170,539) | (287,503) |

| | | | | |
|---|------------------|------------------|------------------|------------------|
| IOF, Pis, Cofins and other financial expenses | (34,278) | (58,900) | (35,597) | (60,009) |
| Total | (445,299) | (839,254) | (451,722) | (844,286) |

27) BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a) Balances and transactions with related parties

The main balances of assets and liabilities with related parties arises from transactions with companies related to the controlling group carried out at the prices and other commercial conditions agreed in contracts between the parties as follows:

- a) Fixed and mobile telephony services provided by Telefónica Group companies;
- b) Digital TV services provided by Media Networks Latino America;
- c) Lease and maintenance of safety equipment provided by Telefônica Inteligência e Segurança Brasil;
- d) Corporate services passed through at the cost effectively incurred for these services;
- e) Right to use certain software licenses, including maintenance and support, provided by Telefónica Global Technology
- f) International transmission infrastructure for several data circuits and roaming services provided by Telxius Cable Brasil, Telefónica International Wholesale Services Espanha, Telefónica USA; and Media Net Br;
- g) Operations relating to the purchase of internet content, advertising and auditing services;

h) Marketing services provided by Group companies;

i) Information access services through the electronic communications network, provided by Telefonica de Espanha;

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j) Data communication services and integrated solutions provided by Telefónica International Wholesale Services Espanha and Telefónica USA;

k) Long distance call and international roaming services provided by companies of Telefónica Group;

l) Sundry expenses and costs to be reimbursed by companies of Telefónica Group;

m) Brand Fee for assignment of rights to use the brand paid to Telefónica;

n) Stock option plan for employees of the Company and its subsidiaries related to acquisition of Telefónica shares;

o) Cost Sharing Agreement (CSA) for digital-business related expenses reimbursed to Telefónica Digital;

p) Leases/rentals of Telefónica Group companies' buildings;

q) Financial Clearing House roaming, inflows of funds for payments and receipts arising from roaming operation between group companies operated by Telfisa;

- r) Integrated e-learning, online education and training solutions provided by T.Learning Services Brasil;

- s) Factoring transactions, credit facilities for services provided by the Group's suppliers;

- t) Social investment in Fundação Telefônica, innovative use of technology to enhance learning and knowledge, contributing to personal and social development;**

- u) Contracts or agreements assigning user rights for cable ducts, optical fiber duct rental services, and right-of-way related occupancy agreements with several highway concessionaires provided by Companhia AIX;**

- v) Adquira Sourcing platform - online solution provided by Telefónica Compras Electrónicas to transact purchase and sale of all types of goods and services;**

- w) Digital media; marketing and sales, in-store and outdoor digital marketing services provided by Telefônica On The Spot Soluções Digitais Brasil; and**

- x) Sale/transfer of the Company's towers and customer portfolio to Telxius Torres Brasil.**

As described in Note 29, the Company and its subsidiaries sponsor pension plans and other post-employment benefits for its employees with Visão Prev e Sistel.

The following table summarizes the consolidated balances with related parties:

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

| Companies | Type of transaction | Cash and cash equivalents | Balance Sheet - Assets | | | 12/31/17 |
|---|---------------------|---------------------------|------------------------|----------------|---|--------------|
| | | | 03/31/18 | | | |
| Parent Companies | | | | | | |
| SP | | | | | | |
| Telecomunicações Participações Telefónica LatinoAmerica Holding | d) / l) | - | 1,422 | 4,588 | - | 531 |
| Telefónica | l) | - | - | 144,161 | - | |
| | l) | - | 505 | 13,910 | - | 492 |
| | | - | 1,927 | 162,659 | - | 1,023 |
| Other Group companies | | | | | | |
| Colombia | | | | | | |
| Telecomunicaciones ESP | k) | - | 1,212 | 4,649 | - | 1,210 |
| Media Networks Brasil Soluções Digitais | a) / d) | - | 1,143 | 112 | - | 1,017 |
| Pegaso PCS | k) | - | 2,768 | - | - | 2,757 |
| T.O2 Germany GMBH CO. OHG | k) | - | 24,042 | - | - | 22,315 |
| Telefónica Venezolana (former Telcel Telecom. Celulares C. A.) | k) / l) | - | 6,008 | - | - | 6,067 |

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| | | | | | |
|---------------------------|----------------------------------|---------------|----------------|----------------|--------------|
| Telefônica Digital | | | | | |
| España | | - | 1,929 | - | - |
| Telefônica Factoring | | | | | |
| do Brasil | a) / d) / l) | - | 14,548 | 77 | - |
| Telefónica Global | | | | | |
| Technology | l) | - | - | 14,206 | - |
| Telefônica | | | | | |
| Inteligência e | | | | | |
| Segurança Brasil | a) / d) / l) | - | 406 | 974 | - |
| Telefónica | | | | | |
| International | | | | | |
| Wholesale Services | | | | | |
| Espanha | j) | - | 74,741 | - | - |
| Telefônica Learning | | | | | |
| Services Brasil | a) | - | 340 | - | - |
| Telefónica Mviles | | | | | |
| Argentina | k) | - | 9,127 | - | - |
| Telefónica Mviles | | | | | |
| Del Espanha | k) | - | 9,046 | - | - |
| Telefônica Serviços | | | | | |
| Empresariais do | | | | | |
| Brasil | a) / d) / p) | - | 2,974 | 2,110 | - |
| Telefónica USA | j) | - | 6,907 | - | - |
| Telfisa Global BV | q) | 11,537 | - | - | 9,523 |
| Telxius Cable Brasil | a) / d) / p) | - | 18,538 | 767 | - |
| Telxius Torres Brasil | d) / l) / p) / x) | - | 9,798 | 10,551 | - |
| Terra Networks | | | | | |
| Chile, Terra | | | | | |
| Networks México, | | | | | |
| Terra Networks Perú | | | | | |
| and Terra Networks | | | | | |
| Operation | g) / h) | - | 7,481 | - | - |
| Other | a) / d) / g) / h) / k) / l) / p) | - | 5,329 | 1,545 | - |
| | | 11,537 | 196,337 | 34,991 | 9,523 |
| Total | | 11,537 | 198,264 | 197,650 | 9,523 |
| Current assets | | 11,537 | 198,264 | 195,382 | 9,523 |
| Non-current assets | | - | - | 2,268 | - |

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

| | | Balance Sheet 03.31.18 | |
|--|------------------------|---|----------------------|
| | Type of transaction | Trade accounts payable and other payables | Other liabilities |
| <u>Companies</u> | | | |
| <u>Parent Companies</u> | | | |
| SP Telecomunicações Participações | l) | 7,760 | 15,000 |
| Telefónica LatinoAmerica Holding | l) | 89 | - |
| Telefónica | l) / m) / n) | 1,587 | 53,945 |
| | | 9,436 | 68,945 |
| <u>Other Group companies</u> | | | |
| Colombia Telecomunicaciones S.A. ESP | k) | 497 | - |
| Fundação Telefônica | t) | 3,667 | 137 |
| Media Networks Latina America SAC | b) | 12,453 | - |
| Media Networks Brasil Soluções Digitais | f) | 34,329 | 318 |
| Pegaso PCS | k) | 415 | - |
| T.O2 Germany GMBH CO. OHG | k) | 4,988 | - |
| Telefónica Venezolana (former Telcel Telecom. Celulares C. A.) | k) | 5,206 | - |
| Telefónica Compras Electrónicas | v) | 24,294 | - |

| | | | |
|---|--|----------------|---------------|
| Telefônica Digital España | l) / o) | 53,630 | - |
| Telefônica Factoring do Brasil | l) / s) | - | 146 |
| Telefónica Global Technology | e) / l) | 17,476 | 5,148 |
| Telefônica Inteligência e Segurança Brasil | c) / l) | 15,501 | 27 |
| Telefónica International Wholesale Services Espanha | f) / k) | 48,595 | - |
| Telefônica Learning Services Brasil | r) | 22,916 | - |
| Telefónica Mviles Argentina | k) | 4,472 | - |
| Telefónica Mviles Del Espanha | k) | 3,994 | - |
| Telefônica Serviços Empresariais do Brasil | l) | - | 416 |
| Telefónica USA | f) | - | 172 |
| Telxius Cable Brasil | f) | 35,984 | 2,068 |
| Telxius Torres Brasil | l) / x) | 41,364 | 3,760 |
| Terra Networks México, Terra Networks Perú and Terra Networks Operation | h) | 8,782 | - |
| Other | g) / h) / i) / k) / l) / u) / w) | 17,239 | 46 |
| | | 355,802 | 12,238 |
| Total | | 365,238 | 81,183 |
| Current liabilities | | 365,238 | 79,930 |
| Non-current liabilities | | - | 1,253 |

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

| | Type of transaction | Operating revenues | 1st quarter of 2018 | Income statement | |
|---|---------------------|--------------------|--|------------------|------------------|
| | | | Cost, despesas and other expenses (revenues) operating | Financial result | Operat revenu |
| <u>Companies</u> | | | | | |
| <u>Parent Companies</u> | | | | | |
| SP Telecomunicações Participações | d) / l) | - | 65 | - | |
| Telefónica LatinoAmerica Holding | l) | - | 4,759 | 3,899 | |
| Telefónica | l) / m) / n) | - | (95,803) | (8,058) | |
| | | - | (90,979) | (4,159) | |
| <u>Other Group companies</u> | | | | | |
| Colombia Telecomunicaciones S.A. ESP | k) | 30 | 15 | 132 | 1 |
| Companhia AIX de Participações | a) / u) | 18 | (1,915) | - | |
| Fundação Telefônica | a) / t) | - | (3,667) | - | |
| Media Networks Brasil Soluções Digitais | a) / d) / f) | 577 | (29,282) | - | |
| Media Networks Latina America SAC | b) | - | (9,061) | 59 | |
| Pegaso PCS | k) | 8 | (321) | - | |
| T. Learning Services Brasil | a) / r) | 247 | (8,052) | - | |
| T.O2 Germany GMBH CO. OHG | k) | | | | |

| | | | | | |
|---|--|---------------|------------------|----------------|-------------|
| | | (50) | 481 | - | |
| Telefónica Compras Electrónicas | v) | - | (8,374) | - | |
| Telefônica Digital Espanha | l) / o) | - | (24,056) | (1,496) | |
| Telefônica Factoring do Brasil | a) / d) / l) / s) | 8 | 53 | 1,626 | |
| Telefónica Global Technology, S.A.U. | e) / l) | - | (9,464) | (68) | |
| Telefônica Inteligência e Segurança Brasil | a) / c) / d) / l) | 161 | (7,001) | - | |
| Telefónica International Wholesale Services Espanha | f) / j) / k) | 13,960 | (14,546) | (423) | 14,4 |
| Telefónica Mviles Argentina | k) | 1,965 | (662) | - | 2,6 |
| Telefónica Mviles Del Chile | k) | 336 | (301) | 12 | 1,0 |
| Telefónica Mviles Del Espanha | k) | 36 | (702) | - | 2 |
| Telefônica Serviços Empresariais do Brasil | a) / l) / p) | - | - | - | |
| Telefónica USA | f) / j) | 618 | (4,502) | 118 | 1,1 |
| Telxius Cable Brasil | a) / d) / f) / p) | 3,780 | 21,905 | (360) | 1,6 |
| Telxius Torres Brasil | d) / l) / p) / x) | - | (22,807) | - | |
| Terra Networks Chile, Terra Networks México, Terra Networks Perú and Terra Networks Operation | g) / h) | - | 346 | (149) | |
| Other | a) / d) / g) / h) / i) / k) / l) / p) / u) / w) | (217) | (7,217) | (301) | 2,4 |
| | | 21,477 | (129,130) | (850) | 23,9 |
| Total | | 21,477 | (220,109) | (5,009) | 23,9 |

b) Management compensation

Consolidated key management personnel compensation paid by the Company to its Board of Directors and Statutory Officers were R\$6,138 and R\$4,786 for the quarters ended March 31, 2018 and 2017 respectively. Of this amount, R\$4,467 (R\$2,865 at March 31, 2017) corresponds to salaries, benefits and social charges and R\$1,671 (R\$1,921 at March 31, 2017) to variable compensation.

These amounts were recorded as expenses with personnel under the General and administrative expenses group of accounts (Note 24).

For the quarters ended March 31, 2018 and 2017, our Directors and Officers did not receive any pension, retirement or similar benefits.

28) SHARE-BASED PAYMENT PLANS

Telefónica, as the Company's parent company, has different share-based payment plans based on the share quotes, which were also offered to management and employees of its subsidiaries, including Telefônica Brasil and the latter's subsidiaries.

The fair value of these options is estimated on the grant date, based on a binomial pricing model reflecting terms and conditions of instruments granted.

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

The Company and its subsidiaries reimburse Telefónica for the amount of the fair value of the benefits granted to management and employees on the grant date.

The details of these plans are the same as in Note 29) Share-Based Payment Plans, as disclosed in the financial statements for the fiscal year ended December 31, 2017.

The main plans in force at March 31, 2018 and December 31, 2017 were:

Performance & Investment Plan (“PIP”) to reward senior management's global commitment: cycle 2015-2018 (October 1, 2015 to September 30, 2018): with 74 active Company executives (including 2 executives appointed under the Articles of Incorporation of the Company), hold the right to potentially receive 429,610 Telefónica shares (includes initial amounts and co-investment).

Talent for the Future Share Plan (“TFSP”) to reward the global commitment: cycle 2015-2018 cycle (October 1, 2015 to September 30, 2018): with the right to potentially receive 83,000 Telefónica shares (includes initial amounts).

At March 31, 2018, the value of Telefónica' share price was Eur 8.0280.

The expenses of the Company and its subsidiaries with the share-based compensation plans described above, where applicable, are recorded as personnel expenses, divided into the groups Cost of Services, Selling expenses and General and Administrative Expenses (Note 24), corresponding to R\$1,186 and R\$5,746 for the three-month periods ended March 31, 2018 and 2017.

29) PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The plans sponsored by the Company and related benefit types are as follows:

| Plan | Type | Entity | Sponsor |
|------------------------------|------------------------------------|-------------------|---|
| PBS-A | Defined benefit (DB) | Sistel | Telefônica Brasil, jointly with other telecoms resulting from privatization of the Sistema Telebrás |
| PAMA / PCE | Defined benefit (DB) | Sistel | Telefônica Brasil, jointly with other telecoms resulting from privatization of the Sistema Telebrás |
| Healthcare - Law No. 9656/98 | Defined benefit (DB) | Telefônica Brasil | Telefônica Brasil, TData, Terra Networks and TGLog |
| CTB | Defined benefit (DB) | Telefônica Brasil | Telefônica Brasil |
| Telefônica BD | Defined benefit (DB) | VisãoPrev | Telefônica Brasil |
| TCOPREV | Hybrid | VisãoPrev | Telefônica Brasil |
| VISÃO | Defined contribution (DC) / Hybrid | VisãoPrev | Telefônica Brasil, TData, Terra Networks and TGLog |

The details of these plans are the same as in Note 30) Pension Plans and Other Post-Employment Benefits, as disclosed in the financial statements for the fiscal year ended December 31, 2017.

Consolidated balances of both underfunded and surplus plans are shown below:

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

| | Plans with surplus | Consolidated Plans with deficit | Total |
|---|-----------------------|---------------------------------------|------------------|
| Balances at 12/31/16 | 9,041 | (327,670) | (318,629) |
| Current service cost | (767) | (1,738) | (2,505) |
| Net interest on net defined benefit liabilities/assets | 284 | (8,916) | (8,632) |
| Contributions and benefits paid by the employers | 689 | 2,747 | 3,436 |
| Balances at 03/31/17 | 9,247 | (335,577) | (326,330) |
| Current service cost | (1,890) | (6,255) | (8,145) |
| Net interest on net defined benefit liabilities/assets | 859 | (26,810) | (25,951) |
| Contributions and benefits paid by the employers | 1,050 | 9,235 | 10,285 |
| Effects on comprehensive income | 555 | (171,851) | (171,296) |
| Business combinations | 12 | (680) | (668) |
| Balances at 12/31/17 | 9,833 | (531,938) | (522,105) |
| Current service cost | (611) | (3,552) | (4,163) |
| Net interest on net defined benefit liabilities/assets | 256 | (13,247) | (12,991) |
| Contributions and benefits paid by the employers | 492 | 4,376 | 4,868 |
| Balances at 03/31/18 | 9,970 | (544,361) | (534,391) |

Of the surplus amounts shown in the table above, the Company recognized consolidated amounts of R\$9,970 and R\$9,833 at March 31, 2018 and December 31, 2017, respectively (Note 10).

30) FINANCIAL INSTRUMENTS AND RISK AND CAPITAL MANAGEMENT

a) Derivative transactions

The derivative financial instruments contracted by the Company are mainly intended to hedge against foreign exchange risk arising from assets and liabilities in foreign currency, risk of inflation on its debentures and leases indexed to the IPCA and against the risk of changes in TJLP of a portion of debt with BNDES. There are no derivative financial instruments for speculative purposes and possible currency risks are hedged.

Management understands that the Company's internal controls for its derivatives are adequate to control risks associated with each strategy for the market. Gains/losses obtained or sustained by the Company in relation to its derivatives show that its risk management has been appropriate.

The Company calculates the effectiveness of the derivative contracts to hedge its financial liabilities and cash flows in foreign currency at the beginning of the operation and on an ongoing basis. At March 31, 2018 and December 31, 2017, the derivative instruments were effective for the hedged items.

As long as these derivatives contracts qualify for hedge accounting, the hedged item may also be adjusted to fair value, offsetting the result of the derivatives, according to the rules of hedge accounting. This hedge accounting applies both to financial liabilities and probable cash flows in foreign currency.

At March 31, 2018 and December 31, 2017, the Company held no embedded derivatives contracts.

Derivatives contracts include specific penalties for breach of contract. Breach of contract provided for in agreements made with financial institutions leads to the anticipated liquidation of the contract.

a.1) Fair value of derivative financial instruments

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The valuation method used to calculate the fair value of financial liabilities (if applicable) and derivative financial instruments was the discounted cash flow method, based on expected settlements or realization of liabilities and assets at market rates prevailing at the balance sheet date.

The fair values of positions in Reais are calculated by projecting future inflows from transactions using B3 yield curves discounting these flows to present value using market DI rates for swaps announced by B3.

The market values of foreign-exchange derivatives were obtained using the market exchange rates in effect at the balance sheet date and projected market rates obtained from the currency's coupon-rate yield curves. The linear convention of 360 calendar days was used to determine coupon rates of positions indexed in foreign currencies, while the exponential convention of 252 business days was used to determine coupon rates for positions indexed to CDI rates.

Consolidated derivatives financial instruments shown below are registered with B3 and classified as swaps, usually, that do not require margin deposits.

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Three-month period ended March 31, 2018

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

| Description | Notional Value | | Consolidated Accumulated effects from fair value Amount receivable (payable) | |
|------------------------------|------------------|--------------------|--|-----------------|
| | 03.31.18 | 12.31.17 | 03.31.18 | 12.31.17 |
| <u>Long position</u> | 1,020,774 | 1,166,777 | 151,332 | 164,405 |
| <u>Foreign Currency</u> | 316,705 | 326,149 | 86,164 | 102,876 |
| US\$ (1) (2) | 100,898 | 201,445 | 40,973 | 49,110 |
| EUR (2) | 120,056 | 11,000 | 112 | 449 |
| LIBOR US\$ (1) | 95,751 | 113,704 | 45,079 | 53,317 |
| <u>Floating rate</u> | 543,967 | 643,589 | 23,148 | 28,263 |
| CDI (1) (2) | 211,890 | 249,239 | 95 | 82 |
| TJLP (4) | 332,077 | 394,350 | 23,053 | 28,181 |
| <u>Inflation rates</u> | 160,102 | 197,039 | 42,020 | 33,266 |
| IPCA (3) (5) | 160,102 | 166,775 | 42,020 | 33,266 |
| IGPM | - | 30,264 | - | - |
| <u>Short position</u> | (900,718) | (1,363,491) | (23,417) | (20,651) |
| <u>Floating rate</u> | (640,953) | (952,283) | (20,585) | (16,416) |

| | | | | |
|-------------------------|--------------------------------|-----------|-----------------|-----------------|
| CDI (1) (2) (3) (4) (5) | (640,953) | (952,283) | (20,585) | (16,416) |
| <u>Foreign Currency</u> | (259,765) | (411,208) | (2,832) | (4,235) |
| US\$ (2) | (211,890) | (354,356) | (2,832) | (4,235) |
| LIBOR US\$ (1) | (47,875) | (56,852) | - | - |
| | Long position | | 151,332 | 164,405 |
| | Current | | 85,417 | 87,643 |
| | Non Current | | 65,915 | 76,762 |
| | Short position | | (23,417) | (20,651) |
| | Current | | (5,430) | (5,239) |
| | Non Current | | (17,987) | (15,412) |
| | Amounts receivable, net | | 127,915 | 143,754 |

(1) Foreign currency swaps (US\$ and LIBOR) x CDI (R\$195,988) - swap transactions for varying debt repayment dates held to hedge currency risk affecting the Company's loans in US\$ (carrying amount R\$189,979).

(2) Foreign currency swaps (Euro and CDI x Euro) (R\$110,201) and (US\$ and CDI x US\$) (R\$183,141) - maturing through May 14, 2018 to hedge currency risk affecting net amounts payable (carrying amount R\$109,460 in euros) and receivables (carrying amount R\$183,787 in US\$).

(3) IPCA x CDI rate swaps (R\$40,413) - maturing through 2019 to hedge the same flow as the debentures (4th issue - 3rd series) indexed to the IPCA (carrying amount R\$41,134).

(4) TJLP x CDI swaps (R\$352,346) - maturing through 2019 to hedge the risk of TJLP variation on loan with BNDES (carrying amount R\$370,870).

(5) IPCA x CDI swaps (R\$244,929) - maturing in 2033 to hedge risk of change in finance lease rate pegged to IPCA (carrying amount R\$245,686).

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

The table below shows the breakdown of swaps maturing after March 31, 2018:

| Swap contract | Company/Consolidated Maturing in | | | | Amount receivable (payable) at 03.31.18 |
|---------------------------|-------------------------------------|---------------|--------------|-----------------|--|
| | 2018 | 2019 | 2020 | 2021 onwards | |
| Foreign currency x CDI | 49,104 | 36,730 | - | - | 85,834 |
| CDI x Foreign Currency | (4,919) | (144) | - | - | (5,063) |
| TJLP x CDI | 15,447 | 7,606 | - | - | 23,053 |
| IPCA x CDI | 685 | 10,222 | 1,554 | 11,630 | 24,091 |
| Total | 60,317 | 54,414 | 1,554 | 11,630 | 127,915 |

For the purposes of preparing its financial statements, the Company adopted the fair value hedge accounting methodology for its foreign currency swaps x CDI, IPCA x CDI and TJLP x CDI for hedging or financial debt. Under this arrangement, both derivatives and hedged risk are recognized at fair value.

The ineffective portion at March 31, 2018 was R\$1,126 (R\$1,289 at December 31, 2017).

At March 31, 2018 and 2017, the transactions with derivatives generated consolidated positive (net) result of R\$7,740 and negative (net) result of R\$49,255, respectively (Note 26).

a.2) Sensitivity analysis to the Company's risk variables

CVM Resolution 604/09 requires listed companies to comply with CPC 40 Financial Instruments: Disclosures (IFRS 7) by disclosing sensitivity analyses for each type of market risk that management understands to be significant when originated by financial instruments to which the entity is exposed at the end of each period, including all derivatives financial instrument transactions.

In making the above analysis, each of the transactions with derivative financial instruments was assessed and assumptions included a probable scenario and two others that could adversely impact the Company.

In the probable scenario the assumption is to use, on the maturity dates of each of the transactions, what the market had been showing through B3 yield curves (currencies and interest rates), as well as data available at IBGE, Central Bank, FGV, among others. In the probable scenario, there is no impact on the fair value of the above-mentioned derivatives. However, for scenarios II and III, as per CVM ruling, risk variables were considered to deteriorate by 25% and 50% respectively.

Since the Company only holds derivatives to hedge its foreign-currency assets and liabilities, changing scenarios are tracked by the corresponding hedged items, thus showing that effects are almost non-existent. For these transactions, the Company reported the consolidated net exposure in each of the above-mentioned three scenarios at March 31, 2018.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**Sensitivity analysis - net exposure

| <u>Transaction</u> | <u>Risk</u> | Consolidated | Probable | 25% |
|--|---|--------------|--------------------|-----|
| Hedge (long position) | Derivatives (depreciation risk EUR) | | (110,201) | |
| Payables in EUR | Debt (appreciation risk EUR) | | (29,560) | |
| Receivables in EUR | Debt (depreciation risk EUR) | | 139,021 | |
| | Net Exposure | | (740) | |
| Hedge (short position) | Derivatives (depreciation risk US\$) | | (183,141) | |
| Payables in US\$ | Debt (appreciation risk US\$) | | (32,416) | |
| Receivables in US\$ | Debt (depreciation risk US\$) | | 216,203 | |
| | Net Exposure | | 646 | |
| Hedge (long position) | Derivatives (risk of decrease in IPCA) | | 285,343 | |
| Debt in IPCA | Debt (risk of increase in IPCA) | | (394,471) | |
| | Net Exposure | | (109,128) | |
| Hedge (long position) | Derivatives (risk of decrease in UMBND) | | 186,444 | |
| Debt in UMBND | Debt (risk of increase in UMBND) | | (190,596) | |
| | Net Exposure | | (4,152) | |
| Hedge (long position) | Derivatives (risk of decrease in TJLP) | | 352,346 | |
| Debt in TJLP | Debt (risk of increase in TJLP) | | (1,426,371) | |
| | Net Exposure | | (1,074,025) | |
| Hedge (CDI position) | | | | |
| Hedge US\$ and EUR (short and long position) | Derivatives (risk of decrease in CDI) | | (293,342) | |
| Hedge IPCA (short position) | Derivatives (risk of increase in CDI) | | (285,343) | |
| Hedge UMBND (short position) | Derivatives (risk of increase in CDI) | | (186,444) | |
| Hedge TJLP (short position) | Derivatives (risk of increase in CDI) | | (352,346) | |
| | Net Exposure | | (1,117,475) | |

Total net exposure in each scenario **(2,304,874)**

Net effect on changes in current fair value **-**

The assumptions used by the Company for the sensitivity analysis at March 31, 2018 were as follows:

Sensitivity analysis assumptions

| <u>Risk Variable</u> | Probable | 25% depreciation | 50% depreciation |
|----------------------|----------|------------------|------------------|
| US\$ | 3.3238 | 4.1548 | 4.9857 |
| EUR | 4.0946 | 5.1182 | 6.1419 |
| JPY | 0.0313 | 0.0391 | 0.0469 |
| IPCA | 2.71% | 3.39% | 4.07% |
| IGPM | 0.20% | 0.25% | 0.30% |
| IGP-DI | 0.83% | 1.04% | 1.24% |
| UMBND | 0.0649 | 0.0811 | 0.0974 |
| TJLP | 0.0675 | 0.0844 | 0.1013 |
| CDI | 6.39% | 7.99% | 9.59% |

For calculation of the net exposure for the sensitivity analysis, all derivatives were considered at market value and hedged items designated for hedge for accounting purposes were also considered at fair value.

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The fair values shown in the table above are based on the portfolio position at March 31, 2018, but do not reflect an estimate for realization due to the dynamism of the market, which is constantly monitored by the Company. The use of different assumptions could significantly affect the estimates.

b) Fair value

The Company and its subsidiaries assessed their financial assets and liabilities in relation to market values using available information and appropriate valuation methodologies. However, both the interpretation of market data and the selection of valuation methods require considerable judgment and reasonable estimates to produce the most adequate realization value. As a result, the estimates shown do not necessarily indicate amounts that could be realized in the current market. The use of different assumptions for the market and/or methodologies may have a material effect on estimated realization values. At March 31, 2018 and December 31, 2017, neither the Company nor its subsidiaries detected any significant and enduring impairment of their financial instruments.

The fair value of all assets and liabilities are classified within the fair value hierarchy described below, based on the lowest level of information that is significant to the fair value measurement as a whole:

Level 1: quoted market prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: valuation techniques for which significant lower level of information to measure the fair value directly or indirectly observable; and

Level 3: valuation techniques for which the lowest and significant level of information to measure the fair value is not available.

The following tables show the composition of financial assets and liabilities at March 31, 2018 and December 31, 2017. During the periods shown in the tables below, there were no transfers between fair value measurements of Level 3 and levels 1 and 2.

The following tables show the composition of financial assets and liabilities at March 31, 2018 and December 31, 2017.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

| | Classification by category | Fair value hierarchy | Company Book value | | Fair value | |
|--|---|----------------------|--------------------|-----------|------------|-----------|
| | | | 03.31.18 | 12.31.17 | 03.31.18 | 12.31.17 |
| Financial Assets | | | | | | |
| Current | | | | | | |
| Cash and cash equivalents (Note 3) | Amortized cost | | 3,857,949 | 3,681,173 | 3,857,949 | 3,681,173 |
| Trade accounts receivable (Note 4) | Loans and receivables | | 8,346,384 | 8,413,403 | 8,346,384 | 8,413,403 |
| Derivative transactions (Note 30) | Measured at fair value through profit or loss | Level 2 | 1,136 | 2,480 | 1,136 | 2,480 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 84,281 | 85,163 | 84,281 | 85,163 |
| Non-current | | | | | | |
| Short-term investments pledged as collateral | Amortized cost | | 87,558 | 81,472 | 87,558 | 81,472 |
| Trade accounts receivable (Note 4) | Loans and receivables | | 174,863 | 167,682 | 174,863 | 167,682 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 65,915 | 76,762 | 65,915 | 76,762 |

| | | | | | | |
|--|---|---------|-------------------|-------------------|-------------------|-------------------|
| Total financial assets | | | 12,618,086 | 12,508,135 | 12,618,086 | 12,508,135 |
| Financial Liabilities | | | | | | |
| Current | | | | | | |
| Trade accounts payable, net (Note 15) | Amortized cost | | 8,093,626 | 8,560,844 | 8,093,626 | 8,560,844 |
| Loans, financing and finance lease (Note 20) | Amortized cost | | 1,009,522 | 1,316,034 | 1,143,882 | 1,463,609 |
| Loans, financing and finance lease (Note 20) | Measured at fair value through profit or loss | Level 2 | 402,564 | 304,921 | 358,354 | 317,231 |
| Debentures (Note 20) | Amortized cost | | 1,406,055 | 1,412,174 | 1,532,374 | 1,532,427 |
| Debentures (Note 20) | Measured at fair value through profit or loss | Level 2 | 688 | 312 | 1,515 | 1,490 |
| Derivative transactions (Note 30) | Measured at fair value through profit or loss | Level 2 | 5,213 | 4,372 | 5,213 | 4,372 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | - | 735 | - | 735 |
| Non-current | | | | | | |
| Loans, financing and finance lease (Note 20) | Amortized cost | | 1,208,637 | 1,353,582 | 1,173,094 | 1,291,974 |
| Loans, financing and finance lease (Note 20) | Measured at fair value through profit or loss | Level 2 | 437,196 | 520,421 | 428,254 | 505,422 |
| Contingent consideration (Note 20) | Measured at fair value through profit or loss | Level 2 | 451,084 | 446,144 | 451,084 | 446,144 |
| Debentures (Note 20) | Amortized cost | | 3,072,964 | 3,068,243 | 2,860,756 | 2,866,372 |
| Debentures (Note 20) | Measured at fair value through profit or loss | Level 2 | 40,447 | 40,010 | 38,694 | 37,717 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 17,987 | 15,412 | 17,987 | 15,412 |

Total financial liabilities

16,145,983 17,043,204 16,104,833 17,043,749

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

| | Classification by category | Fair value hierarchy | Consolidated Book value | | Fair value | |
|--|---|----------------------|-------------------------|-----------|------------|-----------|
| | | | 03.31.18 | 12.31.17 | 03.31.18 | 12.31.17 |
| Financial Assets | | | | | | |
| Current | | | | | | |
| Cash and cash equivalents (Note 3) | Amortized cost | | 4,354,491 | 4,050,338 | 4,354,491 | 4,050,338 |
| Trade accounts receivable (Note 4) | Loans and receivables | | 8,770,683 | 8,588,466 | 8,770,683 | 8,588,466 |
| Derivative transactions (Note 30) | Measured at fair value through profit or loss | Level 2 | 1,136 | 2,480 | 1,136 | 2,480 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 84,281 | 85,163 | 84,281 | 85,163 |
| Non-current | | | | | | |
| Short-term investments pledged as collateral | Amortized cost | | 87,569 | 81,486 | 87,569 | 81,486 |
| Trade accounts receivable (Note 4) | Loans and receivables | | 285,780 | 273,888 | 285,780 | 273,888 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 65,915 | 76,762 | 65,915 | 76,762 |

| | | | | | | |
|--|---|---------|-------------------|-------------------|-------------------|-------------------|
| Total financial assets | | | 13,649,855 | 13,158,583 | 13,649,855 | 13,158,583 |
| Financial Liabilities | | | | | | |
| Current | | | | | | |
| Trade accounts payable (Note 15) | Amortized cost | | 7,288,396 | 7,447,100 | 7,288,396 | 7,447,100 |
| Loans, financing and finance lease (Note 20) | Amortized cost | | 1,009,522 | 1,316,034 | 1,143,882 | 1,463,609 |
| Loans, financing and finance lease (Note 20) | Measured at fair value through profit or loss | Level 2 | 402,564 | 304,921 | 358,354 | 317,231 |
| Debentures (Note 20) | Amortized cost | | 1,406,055 | 1,412,174 | 1,532,374 | 1,532,427 |
| Debentures (Note 20) | Measured at fair value through profit or loss | Level 2 | 688 | 312 | 1,515 | 1,490 |
| Derivative transactions (Note 30) | Measured at fair value through profit or loss | Level 2 | 5,213 | 4,504 | 5,213 | 4,504 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 217 | 735 | 217 | 735 |
| Non-current | | | | | | |
| Loans, financing and finance lease (Note 20) | Amortized cost | | 1,208,637 | 1,353,582 | 1,173,094 | 1,291,974 |
| Loans, financing and finance lease (Note 20) | Measured at fair value through profit or loss | Level 2 | 437,196 | 520,421 | 428,254 | 505,422 |
| Debentures (Note 20) | Amortized cost | | 3,072,964 | 3,068,243 | 2,860,756 | 2,866,372 |
| Debentures (Note 20) | Measured at fair value through profit or loss | Level 2 | 40,447 | 40,010 | 38,694 | 37,717 |
| Contingent consideration (Note 20) | Measured at fair value through profit or loss | Level 2 | 451,084 | 446,144 | 451,084 | 446,144 |
| Derivative transactions | Hedges (economic) | Level 2 | 17,987 | 15,412 | 17,987 | 15,412 |

(Note 30)

Total financial liabilities

| | | | |
|-------------------|-------------------|-------------------|-------------------|
| 15,340,970 | 15,929,592 | 15,299,820 | 15,930,137 |
|-------------------|-------------------|-------------------|-------------------|

c) Capital management

The purpose of the Company's capital management is to ensure maintenance of a high credit rating before institutions and an optimal capital ratio in order to support the Company's business and maximize shareholder value.

The Company manages its capital structure by making adjustments and adapting to current economic conditions. For this purpose, the Company may pay dividends, obtain new loans, issue debentures and contract derivatives. For the quarter ended March 31, 2018, there were no changes in capital structure objectives, policies or processes.

In its net debt structure, the Company includes balances referring to loans, financing, debentures, finance leasing, contingent consideration and transactions with derivatives, less cash and cash equivalents, short-term investments to secure BNB financing and guarantor of the contingent consideration liability.

The Company's ratio of consolidated debt to shareholders' equity consists of the following:

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| | Consolidated | |
|--|------------------|------------------|
| | 03.31.18 | 12.31.17 |
| Cash and cash equivalents | 4,354,491 | 4,050,338 |
| Loans, financing, debentures, financial lease and contingent consideration | (8,029,157) | (8,461,841) |
| Derivative transactions, net | 127,915 | 143,754 |
| Short-term investment pledged as collateral | 11,907 | 11,722 |
| Asset guarantor of contingent consideration | 451,084 | 446,144 |
| Net debt | 3,083,760 | 3,809,883 |
| Net equity | 70,422,898 | 69,461,358 |
| Net debt-to-equity ratio | 4.38% | 5.48% |

d) Risk management policy

The Company and its subsidiaries are exposed to several market risks as a result of its commercial operations, debts contracted to finance its activities and debt-related financial instruments.

d.1) Currency Risk

There is risk arising from the possibility that the Company may incur losses due to fluctuating exchange rates, which add to costs arising from loans denominated in foreign currencies.

At March 31, 2018, 2.4% of financial debt was foreign-currency denominated (2.7% at December 31, 2017). The Company enters into derivative transactions (currency hedge) with financial institutions to

hedge against exchange rate variation affecting its total indebtedness in foreign currency (R\$189,979 and R\$225,254 at March 31, 2018 and December 31, 2017, respectively). Its total debt on these dates was covered by asset positions in currency-exchange hedge transactions with CDI-rate swaps.

There is also foreign exchange risk for non-financial assets and liabilities denominated in foreign currencies, which may generate a smaller amount receivable or larger amount payable depending on the exchange rate in the period.

Hedging transactions were contracted to minimize the risks associated with exchange-rate variation of non-financial assets and liabilities in foreign currencies. This balance is subject to daily changes due to the dynamics of the business. However, the Company intends to cover the net balance of these rights and obligations (US\$55,592 thousand and €26,500 receivable at March 31, 2018 and US\$16,953 thousand and €17,535 thousand receivable at December 31, 2017) to mitigate its foreign exchange risks.

d.2) Interest and Inflation Risk

This risk arises because the Company may incur losses in the event of an unfavorable change in the domestic interest rate, which may adversely affect financial expenses resulting from the portion of debentures referenced to the CDI and liability positions in derivatives (currency hedge, IPCA and TJLP) pegged to floating interest rates (CDI).

The debt with BNDES is indexed to the Long-Term Interest Rate (TJLP) which is set on a quarterly basis by the National Monetary Council. In the first quarter of 2017, the TJLP was 7.5%. As of the second quarter of 2017, the TJLP remained at 7.0% up to the end of the year. In the first quarter of 2018, the TJLP was 6.75%.

Inflation risk arises from the “Minas Comunica” debentures of the 1st issue, which are tied to the IPCA and thus may adversely affect financial expenses in the event of an unfavorable change in this index.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

To reduce exposure to the variable interest rate (CDI), the Company and its subsidiaries invested their cash equivalents of R\$4,265,536 at March 31, 2018 (R\$3,932,539 at December 31, 2017), mostly in short-term CDI-based financial investments (Bank Deposit Certificates). The carrying amounts of these instruments approximate their fair values, as they may be redeemed in the short term.

d.3) Liquidity Risk

Liquidity risk is the possibility of the Company or its subsidiaries not holding sufficient funds to meet their commitments due to different currencies and dates of realization of rights and settlement of obligations.

The Company structures the maturity dates of non-derivative financial contracts, as shown in Note 20, and their respective derivatives, as shown in the schedule of payments disclosed in this note, to avoid affecting their liquidity.

The Company cash flow and liquidity are managed on a daily basis by the departments in charge to ensure that operating cash flows and prior funding, when necessary, will be sufficient to meet their schedule of commitments in order to avoid liquidity risk.

Below, we summarize the maturity profile of our consolidated financial liabilities as set forth in loan agreements:

| | Less than one year | From 1 to 2 years | From 2 to 5 years | Over 5 years | Total |
|--|-----------------------|----------------------|----------------------|--------------|-----------|
| At 12.31.17 Trade accounts payable (Note 15) | 7,447,100 | - | - | - | 7,447,100 |

| | | | | | |
|--|-------------------|----------------|------------------|----------------|-------------------|
| Loans, financing and finance lease (Note 20) | 1,620,955 | 780,904 | 885,411 | 207,688 | 3,494,958 |
| Contingent consideration (Note 20) | - | - | - | 446,144 | 446,144 |
| Debentures (Note 20) | 1,412,486 | 66,252 | 3,042,001 | - | 4,520,739 |
| Derivative transactions (Note 30) | 5,239 | 93 | - | 15,319 | 20,651 |
| Total | 10,485,780 | 847,249 | 3,927,412 | 669,151 | 15,929,592 |

| At 03.31.18 | Less than one year | From 1 to 2 years | From 2 to 5 years | Over 5 years | Total |
|--|--------------------|-------------------|-------------------|----------------|-------------------|
| Trade accounts payable (Note 15) | 7,288,396 | - | - | - | 7,288,396 |
| Loans, financing and finance lease (Note 20) | 1,412,086 | 651,806 | 799,620 | 194,407 | 3,057,919 |
| Contingent consideration (Note 20) | - | - | - | 451,084 | 451,084 |
| Debentures (Note 20) | 1,406,743 | 62,368 | 3,051,043 | - | 4,520,154 |
| Derivative transactions (Note 30) | 5,430 | 57 | - | 17,930 | 23,417 |
| Total | 10,112,655 | 714,231 | 3,850,663 | 663,421 | 15,340,970 |

d.4) Credit Risk

The risk arises from the possibility of the Company and its subsidiaries incurring losses due to difficulty in receiving amounts billed to their customers and sales of prepaid handsets and cards that have been pre-activated for the distribution network.

The credit risk on accounts receivable is diversified and mitigated by strict control of the customer base. The Company constantly monitors the level of accounts receivable from postpaid services, and limits bad-debt risk by cutting off access to telephone lines if bills are past due. The mobile customer base predominantly uses the prepaid system, which requires purchase of credits beforehand and therefore does not pose credit risk. Exceptions are made for emergency services that must be maintained for security or national defense reasons.

Credit risk on sales of pre-activated prepaid handsets and cards is managed by a conservative policy for granting credit, using modern credit scoring methods, analyzing financial statements and consultations to

commercial databases, in addition to requesting guarantees.

The Company and its subsidiaries are also subject to credit risk arising from their investments, letters of guarantee received as collateral for certain transactions and receivables from derivative transactions. The Company and its subsidiaries control the credit limits granted to each counterpart and diversify this exposure across first tier financial institutions as per current credit policies of financial counterparties.

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Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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d.5) Social and Environmental Risks

Our operations and properties are subject to various environmental laws and regulations that, among others, govern environmental licenses and records, protection of fauna and flora, air emissions, waste management and remediation of contaminated sites. If we fail to meet present and future requirements, or to identify and manage new or existing contamination, we will incur in significant costs, which include cleaning costs, damages, compensation, fines, activities suspension and other penalties, investments to improve our facilities or change our processes, or interruption of operations. The identification of environmental conditions not currently identified, more stringent inspections by regulatory agencies, the entry into force of more stringent laws and regulations or other unanticipated events may occur and, ultimately, result in significant environmental liabilities and their costs. The occurrence of any of the above factors could have a material adverse effect on our business, results of operations and financial position. According to Article 75 of Law No. 9605 of 1998, the maximum fine per breach of environmental law is R\$50,000.

From the social point of view, we are exposed to contingent liabilities due to the fact that our structure foresees the hiring of outsourced service providers. These potential liabilities may involve labor claims by employees of the service providers who, in suits against the service provider and Company, request the conviction of the Company in a subsidiary manner, that is, we may be compelled to pay in the case the provider does not settle these obligations. There is also a more remote possibility that these employees will be treated as direct employees by the Company, which would generate the risk of a joint and several

conviction. The demands that are known to Telefónica are already provided.

d.6) Insurance Coverage

The policy of the Company and its subsidiaries, as well as the Telefónica Group, includes contracting insurance coverage for all assets and liabilities involving significant and high-risk amounts, based on management's judgment and following Telefónica corporate program guidelines.

At March 31, 2018, maximum limits of claims (established pursuant to the agreements of each entity consolidated by the Company) for significant assets, liabilities or interests covered by insurance and their respective amounts were R\$1,501,052 for operational risks (with loss of profit) and R\$75,000 for general civil liability.

d.7) Other Risks

The Company is required to comply with Brazilian anti-corruption laws and regulations, as well as laws and regulations on the same subject in jurisdictions where it has its securities traded. In particular, the Company is subject, in Brazil, to the Law No. 12.846/2013 and, in the United States, to the U.S. Foreign Corrupt Practices Act of 1977.

Although the Company has internal policies and procedures designed to ensure compliance with the aforementioned anti-corruption laws and regulations, there can be no assurance that such policies and procedures will be sufficient or that the Company's employees, directors, officers, partners, agents and service providers will not take actions in violation of the Company's policies and procedures (or otherwise in violation of the relevant anti-corruption laws and regulations) for which the Company or they may be ultimately held responsible. Violations of anti-corruption laws and regulations could lead to financial penalties, damage to the Company's reputation or other legal consequences that could have a material adverse effect on the Company's business, results of operations and financial condition.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

In connection with the above-mentioned policies, the Company is currently conducting an internal investigation - which is part of a broader investigation being conducted by the controlling shareholder of the Company (Telefônica, S.A.) - regarding possible violations of the abovementioned laws and regulations. The Company is in contact with governmental authorities about this matter and intends to cooperate with those authorities as the investigation continues. It is not possible at this time to predict the scope or duration of this matter or its likely outcome.

31) COMMITMENTS AND GUARANTEES (RENTALS)

The Company and its subsidiaries lease equipment, facilities, and several stores, administrative buildings, and sites (containing radio-base stations and towers), through several non-cancellable operating agreements maturing on different dates, with monthly payments.

At March 31, 2018, the total amounts corresponding to the full period of the contracts were as follows:

| | Company | Consolidated |
|-------------------|-------------------|-------------------|
| Up to 1 year | 2,455,735 | 2,456,000 |
| From 1 to 5 years | 7,684,260 | 7,686,934 |
| Over five years | 4,837,988 | 4,839,458 |
| Total | 14,977,983 | 14,982,392 |

32) ADDITIONAL INFORMATION ON CASH FLOWSa) Reconciliation of cash flow financing activities

The following is a reconciliation of the consolidated cash flow financing activities for the three-month periods ended March 31, 2018 and 2017.

| | At 12/31/16 | Cash flows from financing activities | | Cash flows from operating activities | Financing activities not involving cash and cash equivalents | | |
|--|-------------------|--------------------------------------|-----------------------|--------------------------------------|--|---|--|
| | | Additions | Write-offs (payments) | Write-offs (payments) | Financial charges and foreign exchange variation | Additions of financial lease and supplier financing | Interim and unclaimed dividends and interest on equity |
| Interim dividends and interest on equity | 2,195,031 | - | (310) | - | - | - | 385,083 |
| Loans and financing | 4,880,606 | - | (561,089) | (83,081) | 78,107 | 146,483 | - |
| Finance lease | 374,428 | - | (11,484) | (3,204) | 18,278 | 2,163 | - |
| Debentures | 3,554,307 | 2,000,000 | - | (136,460) | 139,512 | - | - |
| Derivative financial instruments | (28,377) | - | 8,224 | (628) | 43,097 | - | - |
| Contingent Consideration | 414,733 | - | - | - | 9,569 | - | - |
| Total | 11,390,728 | 2,000,000 | (564,659) | (223,373) | 288,563 | 148,646 | 385,083 |
| | At 12/31/17 | Cash flows from financing activities | | Cash flows from operating activities | Financing activities not involving cash and cash equivalents | | |
| | | Additions | Write-offs (payments) | Write-offs (payments) | Financial charges and foreign exchange variation | Additions of financial lease and supplier financing | Interim and unclaimed dividends and interest on equity |
| Interim dividends and | 2,396,116 | - | (367) | - | - | - | 1,673 |

| | | | | | | | |
|----------------------------------|-------------------|----------|------------------|------------------|----------------|----------------|--------------|
| interest on equity | | | | | | | |
| Loans and financing | 3,109,498 | - | (550,065) | (75,970) | 56,906 | 126,411 | - |
| Finance lease | 385,460 | - | (10,991) | (3,951) | 14,521 | 6,100 | - |
| Debentures | 4,520,739 | - | - | (82,124) | 81,539 | - | - |
| Derivative financial instruments | (143,754) | - | 22,804 | - | (6,965) | - | - |
| Contingent Consideration | 446,144 | - | - | - | 4,940 | - | - |
| Total | 10,714,203 | - | (538,619) | (162,045) | 150,941 | 132,511 | 1,673 |

b) Financing transactions that do not involve cash

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2018****(In thousands of *Reais*, unless otherwise stated)**

The main transactions that do not involve cash of the Company refer to the acquisition of assets through financial leases and income from financing with suppliers, as follows:

| | Company / Consolidated | |
|--|------------------------|------------------------|
| | 1st quarter of 2018 | 1st quarter of 2017 |
| Financing transactions with suppliers | 126,411 | 146,483 |
| Acquisition of assets through financial leases | 6,100 | 2,163 |
| Total | 132,511 | 148,646 |

33) ADDITIONAL INFORMATION ON THE CONSOLIDATED INCOME STATEMENT - IFRS 15

The information for the first quarter of 2018 of net operating revenues includes the effects of the adoption of IFRS 15. To facilitate the understanding and comparability of information, we present below the consolidated income statement for the three-month period ended March 31, 2018, excluding the effects of adopting IFRS 15.

| | 1st quarter of 2018 | | 1st quarter of 2017 | |
|------------------------------|-----------------------------------|------------------------|----------------------------------|----------------------------------|
| | Income Statements (IFRS 15) | IFRS adjustments 15 | Income Statements (IAS 18) | Income Statements (IAS 18) |
| Net operating revenue | 10,788,961 | (29,927) | 10,759,034 | 10,590,150 |
| Cost of sales | (5,020,930) | - | (5,020,930) | (5,058,431) |
| Gross profit | 5,768,031 | (29,927) | 5,738,104 | 5,531,719 |

| | | | | |
|--------------------------------------|--------------------|-----------------|--------------------|--------------------|
| Operating income (expenses) | (3,971,853) | 767 | (3,971,086) | (3,961,437) |
| Selling expenses | (3,198,702) | 767 | (3,197,935) | (3,182,138) |
| General and administrative expenses | (600,816) | - | (600,816) | (612,001) |
| Other operating income | 89,433 | - | 89,433 | 115,625 |
| Other operating expenses | (261,768) | - | (261,768) | (282,923) |
| Operating income | 1,796,178 | (29,160) | 1,767,018 | 1,570,282 |
| Financial income | 278,996 | - | 278,996 | 553,914 |
| Financial expenses | (451,722) | - | (451,722) | (844,286) |
| Equity pickup | 565 | - | 565 | 805 |
| Income before taxes | 1,624,017 | (29,160) | 1,594,857 | 1,280,715 |
| Income and social contribution taxes | (525,998) | 9,914 | (516,084) | (284,518) |
| Net income for the period | 1,098,019 | (19,246) | 1,078,773 | 996,197 |

34) SUBSEQUENT EVENTS

On April 12, 2018, the Company's Ordinary General Meeting approved the allocation of proposed additional dividends for 2017, not yet distributed, amounting of R\$2,191,864, equivalent to R\$1.21727748174 and R\$1.33900522992 for common and preferred shares, respectively, to the holders of common and preferred shares that were registered in the Company's records at the end of the day of the Ordinary General Meeting. The amount will be paid until the end of the year 2018, at a date to be defined by the Board of Executive Officers.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 8, 2018

TELEFÔNICA BRASIL S.A.
By: /s/ Luis Carlos da Costa Plaster
Name: Luis Carlos da Costa Plaster
Title: Investor Relations Director
