

TELEFONICA BRASIL S.A.
Form 6-K
November 02, 2018

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

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

For the month of November, 2018

Commission File Number: 001-14475

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

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

Av. Eng° Luís Carlos Berrini, 1376 - 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

SEPTEMBER 30, 2018

(A free translation of the original in Portuguese)

Independent auditor's report

Report on review of quarterly information

To the Board of Directors and Shareholders of

Telefônica Brasil S.A.

Introduction

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

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

Scope of review

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

Conclusion on the interim information

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

Other matters

Statements of value added

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

São Paulo, October 26, 2018

PricewaterhouseCoopers

Auditores Independentes

CRC 2SP000160/O-5

Estela Maris Vieira de Souza

Contadora CRC 1RS046957/O-3

TELEFÔNICA BRASIL S.A.
Balance Sheets
At September 30, 2018 and December 31, 2017

(In thousands of reais)

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

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

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

TELEFÔNICA BRASIL S.A.**Income Statements****Three and nine-month periods ended September 30, 2018 and 2017****(In thousands of reais, except earnings per share)**

| | Note | Company | | | |
|---|------|------------------------------|--------------------|--------------------------|---------------------|
| | | Three-month periods ended | | Nine-month periods ended | |
| | | 09.30.18 | 09.30.17 | 09.30.18 | 09.30.17 |
| Net operating revenue | 23 | 9,582,079 | 9,631,494 | 27,744,368 | 29,764,321 |
| Cost of sales and services | 24 | (4,786,097) | (4,751,844) | (14,439,206) | (14,327,843) |
| Gross profit | | 4,795,982 | 4,879,650 | 13,305,162 | 15,436,478 |
| Operating income (expenses) | | (2,404,190) | (3,922,622) | (7,614,988) | (11,940,811) |
| Selling expenses | 24 | (2,916,086) | (3,199,016) | (8,992,970) | (9,643,321) |
| General and administrative expenses | 24 | (603,334) | (601,412) | (1,816,451) | (1,805,211) |
| Other operating income | 25 | 1,643,421 | 87,729 | 4,338,824 | 26,211 |
| Other operating expenses | 25 | (528,191) | (209,923) | (1,144,391) | (764,700) |
| Operating profit | | 2,391,792 | 957,028 | 5,690,174 | 3,499,957 |
| Financial income | 26 | 1,343,614 | 451,807 | 3,591,085 | 1,422,111 |
| Financial expenses | 26 | (709,216) | (651,613) | (1,723,061) | (2,223,111) |
| Equity in results of investees | 11 | 237,599 | 654,357 | 1,384,419 | 1,072,111 |
| Income before taxes | | 3,263,789 | 1,411,579 | 8,942,617 | 3,771,068 |
| Income and social contribution taxes | 6 | (86,525) | (188,863) | (1,501,037) | (684,111) |
| Net income for the period | | 3,177,264 | 1,222,716 | 7,441,580 | 3,086,957 |
| Basic and diluted earnings per common share (in R\$) | 22 | 1.76 | 0.68 | 4.13 | 3.08 |
| Basic and diluted earnings per preferred share (in R\$) | 22 | 1.94 | 0.75 | 4.55 | 3.41 |

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

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

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

(In thousands of reais)

| | | Company | | |
|--|------|---------------------|------------------|------------------|
| | | Three-month periods | | |
| | | ended | | |
| | Note | 09.30.18 | 09.30.17 | 09.30.16 |
| Net income for the period | | 3,177,264 | 1,222,716 | 7,444,100 |
| Other comprehensive income (losses) that may be reclassified into income (losses) in subsequent periods | | | | |
| Gains (losses) on derivative financial instruments | 30 | 2,702 | (3,979) | 1,000 |
| Taxes | | (490) | (5,063) | (1,000) |
| | | 166 | 1,721 | |
| Cumulative Translation Adjustments (CTA) on transactions in foreign currency | 11 | 3,049 | (637) | 1,000 |
| Interest in comprehensive income of subsidiaries | 11 | (23) | - | - |
| Other comprehensive income (losses) that can not be reclassified into income (losses) in subsequent periods | | | | |
| Unrealized gains on investments available for sale | 11 | (169) | 44 | 1,000 |
| Taxes | | (257) | 66 | - |
| | | 88 | (22) | |
| Other comprehensive income | | 2,533 | (3,935) | 1,000 |
| Comprehensive income for the period - net of taxes | | 3,179,797 | 1,218,781 | 7,445,100 |

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

| | | | (A free translation original in Portuguese) | |
|--|--------------------|------------------|--|-------------------|
| (In thousands in reais) | | | | |
| | Company | | Consolidated | |
| | 09.30.18 | 09.30.17 | 09.30.18 | 09.30.17 |
| <u>Cash flows from operating activities</u> | | | | |
| Income before taxes | 8,942,617 | 3,776,670 | 9,679,819 | 4,000,000 |
| Ajustement for: | | | | |
| Depreciation and amortization | 6,019,692 | 5,842,396 | 6,045,916 | 5,842,396 |
| Foreign exchange on loans and derivative financial instruments | 37,579 | 46,670 | 39,176 | 46,670 |
| Monetary assets and liabilities | 614,751 | 476,343 | 614,356 | 476,343 |
| Equity pickup | (1,384,419) | (1,079,141) | 4,914 | - |
| Loss on write-off/sale of assets | 4,453 | 17,512 | 4,777 | 17,512 |
| Provision for impairment - accounts receivable | 1,011,896 | 1,037,677 | 1,168,936 | 1,037,677 |
| Change in liability provisions | (272,570) | 176,907 | (235,954) | 176,907 |
| Write-off and reversals for impairment - inventories | (31,461) | (45,899) | (33,402) | (45,899) |
| Pension plans and other post-retirement benefits | 35,593 | 23,117 | 36,860 | 23,117 |
| Provisions for tax, civil, labor and regulatory contingencies | 983,676 | 640,383 | 995,695 | 640,383 |
| Interest expense | 380,371 | 770,991 | 380,371 | 770,991 |
| Others | (3,210) | 10,383 | (3,464) | 10,383 |
| Changes in assets and liabilities | | | | |
| Trade accounts receivable | (1,340,124) | (805,214) | (1,509,231) | (805,214) |
| Inventories | (65,764) | 63,800 | (77,156) | 63,800 |
| Taxes recoverable | (5,985,851) | (269,874) | (5,863,914) | (269,874) |
| Prepaid expenses | (83,143) | (62,142) | (80,719) | (62,142) |
| Other assets | 270,279 | (79,749) | (14,304) | (79,749) |
| Personnel, social charges and benefits | 31,804 | 43,226 | 39,861 | 43,226 |
| Trade accounts payable | 652,129 | 298,318 | 987,401 | 298,318 |
| Taxes, charges and contributions | (33,764) | 494,612 | (74,001) | 494,612 |
| Provisions for tax, civil, labor and regulatory contingencies | (3,639,390) | (804,743) | (3,651,633) | (804,743) |
| Other liabilities | (172,733) | (892,876) | (164,089) | (892,876) |
| | (2,970,206) | 5,902,697 | (1,389,604) | 5,902,697 |
| Cash generated from operations | 5,972,411 | 9,679,367 | 8,290,215 | 10,000,000 |
| Interest paid | (410,585) | (695,802) | (410,585) | (695,802) |
| Income and social contribution taxes paid | (11,841) | - | (529,039) | - |
| Net cash (used in) generated by operating activities | 5,549,985 | 8,983,565 | 7,350,591 | 9,304,198 |
| <u>Cash flows from investing activities</u> | | | | |

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| | | | | |
|---|--------------------|--------------------|--------------------|--------------------|
| Additions to PP&E and intangible assets and others | (5,673,471) | (6,105,205) | (5,894,024) | (6,105,205) |
| Cash received from sale of PP&E items | 3,883 | 18,267 | 3,883 | 18,267 |
| Cash paid for acquisition of companies | - | - | - | (1,000,000) |
| Redemption of judicial deposits | 2,701,127 | 49,816 | 2,704,974 | 2,704,974 |
| Dividends and interest on equity received | 1,586,709 | 384,588 | - | - |
| Cash and cash equivalents by incorporation | - | - | - | - |
| Others | - | - | - | - |
| Net cash (used in) generated by investing activities | (1,381,752) | (5,652,534) | (3,185,167) | (6,105,205) |
| <u>Cash flows from financing activities</u> | | | | |
| Payment of loans, financing and debentures | (2,524,301) | (3,551,465) | (2,524,301) | (3,551,465) |
| Loans and financing obtained | - | 2,039,878 | - | 2,039,878 |
| Received of derivative financial instruments | 96,108 | 81,525 | 96,726 | 96,726 |
| Payment of derivative financial instruments | (68,297) | (140,470) | (71,209) | (140,470) |
| Dividend and interest on equity paid | (2,003,224) | (1,304,161) | (2,003,224) | (1,304,161) |
| Treasury shares | - | (32) | - | - |
| Net cash (used in) generated by financing activities | (4,499,714) | (2,874,725) | (4,502,008) | (2,874,725) |
| Increase (decrease) in cash and cash equivalents | (331,481) | 456,306 | (336,584) | 456,306 |
| Cash and cash equivalents at the beginning of the year | 3,681,173 | 4,675,627 | 4,050,338 | 5,131,933 |
| Cash and cash equivalents at the end of the year | 3,349,692 | 5,131,933 | 3,713,754 | 5,131,933 |

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

(A free translation of the original
in Portuguese)

(In thousands in reais)

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

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

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

1) OPERATIONS

a) Background information

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

At September 30, 2018 and December 31, 2017, Telefónica S.A. ("Telefónica"), the Group holding company, held total direct and indirect interest in the Company of 73.58% (Note 22).

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

b) Operations

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

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

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

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

The information on a summary of the authorizations for the use of radiofrequency bands for SMP granted to the Company is the same as in Note 1b) Operations, as disclosed in the financial statements for the year ended December 31, 2017.

c) Acquisition of a Wholly-Owned Subsidiary - 2017

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

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

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

a) Statement of compliance

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

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

b) Basis of preparation and presentation

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

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

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

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

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

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

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

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

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

Standards and amendments

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

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

IFRS 9 Financial Instruments

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

liabilities designated at fair value through profit or loss.

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

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

The main changes are related to the documentation of policies and hedging strategies, as well as the estimation and timing of recognition of expected losses on receivables from customers. The Company has decided to apply the option that allows not to restate comparative periods to be presented in the year of initial application.

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

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

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

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

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.

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

The main practical expedients adopted by the Company were: (i) completed contracts: the standard was not retrospectively applied to those contracts that are completed at January 1, 2018; (ii) portfolio approach: the requirements of the standard have been applied for groups of contracts with similar characteristics, since, for the clusters identified, the effects do not differ significantly from an application on a contract by contract basis; (iii) financial component: it was not considered significant when the period between the moment when the promised product or service is transferred to a customer and the moment when the customer pays for that product or service is one year or less.; and (iv) costs to obtain a contract: these costs will be recognised as an expense when incurred if the amortisation period of the asset that the entity would otherwise recognise is one year or less.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of Reais, unless otherwise stated)**

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

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

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

| | Contract assets (1) | | | Contractual liabilities (3) | | |
|-------------------------------------|------------------------|----------------------|----------------------|-----------------------------|----------------------------|-------------------------|
| | Contract assets, gross | Provision for losses | Contract assets, net | Contractual liabilities | Reclassification (Note 19) | Contractual liabilities |
| Initial adoption on 01.01.18 | 193,675 | (33,196) | 160,479 | (178,897) | - | (178,897) |
| Reclassification on 01.01.18 | - | - | - | - | (383,688) | (383,688) |
| Additions | 460,903 | (7,523) | 453,380 | (162,138) | (5,353,375) | (5,515,513) |
| Write-offs, net | (417,941) | - | (417,941) | 152,059 | 5,388,551 | 5,540,669 |
| Balances as of 09.30.18 | 236,637 | (40,719) | 195,918 | (188,976) | (348,512) | (537,470) |
| Current | 236,637 | (40,719) | 195,918 | (27,211) | (332,764) | (359,977) |
| Non-current | - | - | - | (161,765) | (15,748) | (177,511) |

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

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

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

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

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

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Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

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

IFRS 16 Leases

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

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

The Company is currently in the process of estimating the impact of this new standard on such contracts. This analysis includes the estimation of the lease term, based on the non-cancellable period and the periods covered by options to extend the lease, when the exercise depends only on Telefônica and where such exercise is reasonably certain. This will depend, to a large extent, on the specific facts and circumstances by class of assets in the telecom industry (technology, regulation, competition, business model, among others). In addition to this, the Company will make assumptions to calculate the discount rate, which will mainly be based on the incremental borrowing rate of interest for the estimated term. On the other hand, the Company is considering not to separately recognise non-lease components from lease components for those classes of assets in which non-lease components are not material with respect to the total value of the lease.

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

Due to the different alternatives available, together with the complexity of the estimations and the significant number of lease contracts, the Company has not yet completed the implementation process, so at present it is not possible to make a reasonable estimation of the impact of initial application of the new requirements. However, based on the volume of contracts affected, as well as the magnitude of the future lease commitments, as disclosed in Note 31 herein, the Company expects that the changes introduced by IFRS 16 will have a significant impact on its financial statements from the date of adoption, including the recognition on the balance sheet of right of use assets and their corresponding lease obligations in connection with the majority of contracts that are classified as operating leases under the current lease standard. Also, amortization of the right of use assets and recognition of interest costs on the lease obligation on the statements of income will replace amounts recognised as lease expense under the current lease standard. Classification of lease payments in the statement of cash flows will also be affected by the requirements of the new lease standard. On the other hand, the Company's Financial Statements will include broader disclosures with relevant information regarding lease contracts.

c) Basis of consolidation

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

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

At September 30, 2018 and December 31, 2017, the Company held the following equity interests on the respective dates:

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

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

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

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

clients.

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

d) Reclassification of comparative amounts

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

3) CASH AND CASH EQUIVALENTS

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

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

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)****4) TRADE ACCOUNTS RECEIVABLE**

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

Consolidated balances of non-current trade accounts receivable include:

- R\$126,319 at September 30, 2018 (R\$122,651 at December 31, 2017), relating to the business model of resale of goods to legal entities, receivable within 24 months. At September 30, 2018, the impact of the present-value adjustment was R\$15,236 (R\$16,011 at December 31, 2017).
- R\$47,477, at September 30, 2018 (R\$45,031, at December 31, 2017), net of the present value adjustment relating to the portion of accounts receivable arising from negotiations on the bankruptcy process of companies from the OI group. At September 30, 2018, the impact of the present-value adjustment was R\$13,088 (R\$15,535 at December 31, 2017).
- R\$157,685, at September 30, 2018 (R\$106,206, at December 31, 2017), relating to “Soluciona TI”, traded by TData, which consists of lease of IT equipment to small and medium companies and receipt of fixed installments over the contractual term. Considering the contractual terms, this product was classified as finance lease. At September 30, 2018, the impact of the present-value adjustment was R\$48,229 (R\$33,614 at December 31, 2017).

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

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

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

At September 30, 2018, the aging list of gross trade accounts receivable relating to “Solucioná TI” product is as follows:

| | Consolidated Nominal amount receivable | Present value of accounts receivable |
|---|---|--|
| Falling due within one year | 266,227 | 254,949 |
| Falling due between one year and six years | 267,569 | 230,618 |
| Total | 533,796 | 485,567 |

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

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

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

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

At September 30, 2018 and December 31, 2017, no customer represented more than 10% of trade accounts receivable, net.

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

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

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)****5) INVENTORIES**

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

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

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

6) INCOME AND SOCIAL CONTRIBUTION TAXES

a) Income and Social Contribution taxes recoverable

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

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

b) Income and Social Contribution taxes payable

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

c) Deferred taxes

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

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

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

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

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

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

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

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

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

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

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

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

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

At September 30, 2018, deferred tax credits (income and social contribution tax losses) were not recognized in indirect subsidiaries' (Innoweb and TGLog) accounting records, in the amount of R\$12,715 (R\$11,938 at December 31, 2017), as it is not probable that future taxable profits will be available for these subsidiaries to benefit from such tax credits.

d) Reconciliation of income tax and social contribution expense

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

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

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

| | | | | |
|--|---------------------------|------------------|--------------------------|--------------------|
| Non-deductible expenses, gifts, incentives | | | | |
| Tax benefit related to interest on equity allocated | 952,000 | 103,700 | 1,088,000 | 316,200 |
| Other (additions) exclusions | 944 | (2,580) | 27,148 | (2,795) |
| Total | (86,525) | (188,863) | (1,501,037) | (684,835) |
| Effective rate | 2.7% | 13.4% | 16.8% | 18.1% |
| Current income and social contribution taxes | 32,978 | 48,385 | (209) | 46,222 |
| Deferred income and social contribution taxes | (119,503) | (237,248) | (1,500,828) | (731,057) |
| | | | | Consolidated |
| | Three-month periods ended | | Nine-month periods ended | |
| | 09.30.18 | 09.30.17 | 09.30.18 | 09.30.17 |
| Income before taxes | 3,394,095 | 1,544,449 | 9,679,819 | 4,132,616 |
| Income and social contribution tax expenses, at the tax rate of 34% | (1,153,992) | (525,112) | (3,291,138) | (1,405,089) |
| <u>Permanent differences</u> | | | | |
| Equity pickup, net of effects from interest on equity received (Note 11) | (1,884) | 4 | (1,671) | 463 |
| Unclaimed interest on equity | - | - | (14,426) | (10,319) |
| Temporary differences in subsidiaries | (8) | 1,999 | (8) | 1,999 |
| Non-deductible expenses, gifts, incentives | (12,904) | (32,527) | (50,958) | (72,695) |
| Deferred taxes recognized in subsidiaries on tax loss carryforwards, negative basis and temporary differences referring to prior years | - | 132,080 | - | 132,080 |
| Tax benefit related to interest on equity allocated | 952,000 | 103,700 | 1,088,000 | 316,200 |
| Other (additions) exclusions | (43) | (1,877) | 31,962 | (3,420) |
| Total | (216,831) | (321,733) | (2,238,239) | (1,040,781) |
| Effective rate | 6.4% | 20.8% | 23.1% | 25.2% |
| Current income and social contribution taxes | (80,176) | (196,389) | (743,589) | (440,085) |
| Deferred income and social contribution taxes | (136,655) | (125,344) | (1,494,650) | (600,696) |

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of Reais, unless otherwise stated)****7) TAXES, CHARGES AND CONTRIBUTIONS RECOVERABLE**

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

(1) This includes credits of ICMS arising from the acquisition of property and equipment (subject to offsetting in 48 months); requests for refund of ICMS, which was paid under invoices that were cancelled subsequently; for the rendering of services; tax substitution; and tax rate difference; among others. Non-current consolidated amounts include credits arising from the acquisition of property and equipment of R\$478,555 and R\$423,588 on September 30, 2018 and December 31, 2017, respectively.

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

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

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

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

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

8) JUDICIAL DEPOSITS AND GARNISHMENTS

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

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

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

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

On September 30, 2018, the Company and its subsidiaries had a number of tax-related judicial deposits in the consolidated amount of R\$1,982,144 (R\$4,230,917 at December 31, 2017). In Note 18, we provide further details on issues arising from the most significant judicial deposits.

The table below presents the composition of the balances as at September 30, 2018 and December 31, 2107 of the tax judicial deposits (segregated and summarized by tribute).

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

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

- 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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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

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

- Telecommunications Inspection Fund (FISTEL)

The Company has legal proceedings involving the collection by ANATEL of the Installation Inspection Fee ("TFI") on the renewal of the licenses.

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

9) PREPAID EXPENSES

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

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

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

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

10) OTHER ASSETS

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

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)****11) INVESTMENTS****a) Information on investees**

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

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

| | 09/30/18 | | | | | 12/31/17 | |
|--|--|----------------|----------------|---------------|---------------|--|----------------|
| | Consolidated wholly-owned subsidiaries | | Joint ventures | | | Consolidated wholly-owned subsidiaries | |
| | TData | POP | Aliança | Cia AIX | Cia ACT | TData | POP |
| <u>Equity interest</u> | 100.00% | 100.00% | 50.00% | 50.00% | 50.00% | 100.00% | 100.00% |
| <u>Summary of balance sheets:</u> | | | | | | | |
| Current assets | 2,494,140 | 47,542 | 195,758 | 26,742 | 20 | 2,928,721 | 33,566 |
| Non-current assets | 800,838 | 52,481 | - | 12,171 | - | 749,694 | 52,761 |
| Total assets | 3,294,978 | 100,023 | 195,758 | 38,913 | 20 | 3,678,415 | 86,327 |
| Current liabilities | 1,418,765 | 49,586 | 106 | 6,303 | 4 | 1,893,271 | 47,337 |
| Non-current liabilities | 184,778 | - | - | 15,390 | - | 185,794 | 24 |
| Equity | 1,691,435 | 50,437 | 195,652 | 17,220 | 16 | 1,599,350 | 38,966 |

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

| | Nine-month periods ended | | | | | | | |
|---|--|---------------|----------------|----------------|--|------------------|--------------|--|
| | 09.30.18 | | | | 09.30.17 | | | |
| | Consolidated wholly-owned subsidiaries | | Joint ventures | | Consolidated wholly-owned subsidiaries | | | |
| <u>Summary of Income Statements:</u> | TData | POP | Aliança | Cia AIX | Cia ACT | TData | POP | |
| Net operating income | 4,846,284 | 23,243 | - | 34,175 | 62 | 2,515,027 | 22,014 | |
| Operating costs and expenses | (2,821,107) | (5,951) | (129) | (44,434) | (62) | (1,160,069) | (12,236) | |
| Financial income (expenses), net | 83,377 | 690 | 27 | 819 | - | 67,862 | 1,127 | |
| Income and social contribution taxes | (730,787) | (6,416) | - | (286) | - | (351,749) | (4,197) | |
| Net income (loss) for the period | 1,377,767 | 11,566 | (102) | (9,726) | - | 1,071,071 | 6,708 | |
| Equity pickup | 1,377,767 | 11,566 | (51) | (4,863) | - | 1,071,071 | 6,708 | |

b) Changes in investments

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

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

(1) 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 and nine-month periods ended September 30, 2018

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

12) PROPERTY, PLANT AND EQUIPMENT

a) Breakdown, changes and depreciation rates

| | Switching and transmission equipment | Terminal equipment / modems | Infrastructure | Company Land | Other P&E | Estimated losses (1) | Assets and facilities under construction | To |
|--|---|-----------------------------------|----------------|-----------------|-------------------|-------------------------|---|-----------|
| <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) | 2,700,870 | 31,837,5 |
| Additions | 26,974 | 93,740 | 59,964 | 550 | 157,492 | (30,317) | 4,141,241 | 4,449,6 |
| Write-offs, net | (71,969) | (5,740) | (6,481) | (1,914) | (1,842) | 63,880 | (12,832) | (36,89 |
| Net transfers | 2,532,112 | 1,003,391 | 398,917 | - | 3,834 | 132,579 | (4,063,776) | 7,0 |
| Depreciation (Note 24) | (2,231,790) | (1,049,402) | (407,043) | - | (236,992) | - | - | (3,925,22 |
| Balance at 09/30/17 | 22,486,952 | 2,623,168 | 3,760,851 | 314,355 | 700,540 | (319,244) | 2,765,503 | 32,332,1 |
| Additions | 16,023 | 47,392 | 31,196 | - | 81,497 | (6,961) | 1,921,411 | 2,090,5 |

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

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

| | Switching and transmission equipment | Terminal equipment / modems | Infrastructure | Land | Other P&E | Estimated losses (1) | Assets and facilities under construction | Consolidated Total |
|---|---|-----------------------------------|----------------------|----------------|---------------------------|-------------------------|---|-----------------------|
| Annual depreciation rate (%) | 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) | 2,730,030 | 31,924,918 |
| Additions | 26,974 | 93,740 | 59,964 | 550 | 168,027 | (30,399) | 4,141,825 | 4,460,681 |
| Write-offs, net | (71,969) | (5,740) | (6,757) | (1,914) | (1,793) | 63,961 | (13,386) | (37,598) |
| Net transfers | 2,532,112 | 1,003,391 | 398,917 | - | 22,470 | 132,579 | (4,082,412) | 7,057 |
| Depreciation (Note 24) | (2,231,876) | (1,051,483) | (409,354) | - | (252,353) | - | - | (3,945,066) |
| Business Combination (Note 1.c) | - | - | 1,342 | - | 4,888 | - | 817 | 7,047 |
| Balance at 09/30/17 | 22,487,115 | 2,628,215 | 3,769,319 | 314,355 | 760,595 | (319,434) | 2,776,874 | 32,417,039 |
| Additions | 16,025 | 47,392 | 31,196 | - | 91,593 | (6,975) | 1,943,662 | 2,122,893 |
| Write-offs, net | (16,797) | (1,862) | (209) | (2) | (729) | 98,358 | (5,511) | 73,248 |
| | 1,102,181 | 468,040 | 220,091 | - | 11,623 | (1) | (1,828,200) | (26,266) |

Net
transfers

| | | | | | | | | |
|-------------------|-------------------|------------------|------------------|----------------|----------------|------------------|------------------|-------------------|
| Depreciation | (779,415) | (417,453) | (135,100) | - | (32,630) | - | - | (1,364,598) |
| Balance at | | | | | | | | |
| 12/31/17 | 22,809,109 | 2,724,332 | 3,885,297 | 314,353 | 830,452 | (228,052) | 2,886,825 | 33,222,316 |
| Additions | 10,092 | | | | | | | |