

TELEFONICA BRASIL S.A.
Form 6-K
November 06, 2017

**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, 2017

Commission File Number: 001-14475

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

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

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

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

Form 20-F

Form 40-F

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

Yes

No

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

Yes

No

X

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Telefônica Brasil S.A.

Quarterly Information (ITR)

at September 30, 2017

and report on review of quarterly and nine months-period information

(A free translation of the original in Portuguese)

Report on review of quarterly information

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 September 30, 2017, 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 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 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.

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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 nine-month period ended September 30, 2017. 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.

Audit and review of prior-year information

The Quarterly Information Form (ITR) mentioned in the first paragraph includes accounting information, presented for comparison purposes, related to the statements of income and comprehensive income for the quarter and nine-month periods ended September 30, 2016, and the statements of changes in equity, cash flows and value added for the nine-month period then ended, obtained from the Quarterly Information Form (ITR) for that quarter, and also to the balance sheet as at December 31, 2016, obtained from the financial statements at December 31, 2016. The review of the Quarterly Information (ITR) for the quarter ended September 30, 2016 and the audit of the financial statements for the year ended December 31, 2016 were conducted by other independent auditors, whose unqualified review and audit reports were dated October 25, 2016 and February 17, 2017, respectively.

São Paulo, October 24, 2017

PricewaterhouseCoopers

Auditores Independentes

CRC 2SP000160/O-5

Estela Maris Vieira de Souza

Contadora CRC 1RS046957/O-3 "S" SP

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TELEFÔNICA BRASIL S.A.
Balance Sheets
At September 30, 2017 and December 31, 2016

(In thousands of reais)

| ASSETS | Note | Company | | Consolidated | | LIABILITIES AND EQUITY | Note | 09.30.17 |
|--|------|-------------------|-------------------|-------------------|-------------------|--|------|-------------------|
| | | 09.30.17 | 12.31.16 | 09.30.17 | 12.31.16 | | | |
| Current assets | | 17,593,165 | 17,482,265 | 18,669,238 | 18,398,995 | Current liabilities | | 19,565,054 |
| Cash and cash equivalents | 3 | 5,131,933 | 4,675,627 | 5,571,056 | 5,105,110 | Personnel, social charges and benefits | 13 | 780,589 |
| Trade accounts receivable, net | 4 | 8,072,174 | 8,282,685 | 8,791,035 | 8,701,688 | Trade accounts payable | 14 | 7,622,860 |
| Inventories, net | 5 | 350,250 | 368,151 | 380,610 | 410,413 | Taxes, charges and contributions | 15 | 1,677,801 |
| Taxes recoverable | 6.a | 2,599,093 | 2,952,622 | 2,662,630 | 3,027,230 | Dividends and interest on equity | 16 | 3,525,455 |
| Judicial deposits and garnishments | 7 | 305,386 | 302,349 | 305,525 | 302,424 | Provisions | 17 | 1,288,657 |
| Prepaid expenses | 8 | 509,746 | 336,508 | 521,540 | 343,092 | Deferred revenue | 18 | 414,555 |
| Derivative financial instruments | 30 | 80,493 | 68,943 | 80,496 | 68,943 | Loans and financing | 19 | 1,993,408 |
| Other assets | 9 | 544,090 | 495,380 | 356,346 | 440,095 | Debentures | 19 | 1,414,838 |
| | | | | | | Derivative financial instruments | 30 | 142,609 |
| Non-current assets | | 84,609,594 | 84,475,240 | 83,617,799 | 83,667,264 | Other liabilities | 20 | 704,282 |
| Short-term investments pledged as collateral | 4 | 85,282 | 78,153 | 85,295 | 78,166 | | | |

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| | | | | | | | | |
|---|-----|--------------------|--------------------|--------------------|--------------------|--|-----|--------------------|
| Trade accounts receivable, net | | 178,585 | 200,537 | 290,505 | 305,411 | Non-current liabilities | | 13,125,623 |
| Taxes recoverable | 6.a | 425,448 | 474,240 | 428,408 | 476,844 | Personnel, social charges and benefits | 13 | 20,451 |
| Deferred taxes | 6.b | - | - | 364,351 | 27,497 | Trade accounts payable | 14 | - |
| Judicial deposits and garnishments | 7 | 6,155,015 | 5,974,733 | 6,334,882 | 6,049,142 | Taxes, charges and contributions | 15 | 19,046 |
| Prepaid expenses | 8 | 24,753 | 35,340 | 27,779 | 36,430 | Deferred taxes | 6.b | 819,516 |
| Derivative financial instruments | 30 | 96,535 | 144,050 | 96,535 | 144,050 | Provisions | 17 | 6,594,976 |
| Other assets | 9 | 79,246 | 53,363 | 81,862 | 55,565 | Deferred revenue | 18 | 407,772 |
| Investments | 10 | 2,049,572 | 1,407,155 | 94,000 | 85,745 | Loans and financing | 19 | 2,541,124 |
| Property, plant and equipment, net | 11 | 32,332,125 | 31,837,549 | 32,417,039 | 31,924,918 | Debentures | 19 | 2,107,253 |
| Intangible assets, net | 12 | 43,183,033 | 44,270,120 | 43,397,143 | 44,483,496 | Derivative financial instruments | 30 | 15,292 |
| | | | | | | Other liabilities | 20 | 600,193 |
| | | | | | | Equity | | 69,512,082 |
| | | | | | | Capital | 21 | 63,571,416 |
| | | | | | | Capital reserves | 21 | 1,213,522 |
| | | | | | | Revenue reserves | 21 | 2,483,031 |
| | | | | | | Other comprehensive income | 21 | 17,495 |
| | | | | | | Retained earnings | 21 | 2,226,618 |
| | | | | | | Additional proposed dividends | 21 | - |
| TOTAL ASSETS | | 102,202,759 | 101,957,505 | 102,287,037 | 102,066,259 | TOTAL LIABILITIES AND EQUITY | | 102,202,759 |

(A free translation of the original in Portuguese)

TELEFÔNICA BRASIL S.A.**Income Statements****Three and nine-month periods ended September 30, 2017 and 2016****(In thousands of reais, except earnings per share)**

(A free translation of the original in Portuguese)

| | Note | Company | | | | Consolidated | | |
|-------------------------------------|------|---------------------------|--------------------|--------------------------|-------------------|---------------------------|--------------------|--------------------------|
| | | Three-month periods ended | | Nine-month periods ended | | Three-month periods ended | | Nine-month periods ended |
| | | 09.30.17 | 09.30.16 | 09.30.17 | 09.30.16 | 09.30.17 | 09.30.16 | 09.30.16 |
| Net operating revenue | 22 | 9,631,494 | 10,111,110 | 29,765,720 | 28,381,864 | 10,885,949 | 10,693,365 | 32,170,000 |
| Cost of sales and services | 23 | (4,751,844) | (4,965,161) | (14,327,557) | (14,129,562) | (5,095,718) | (5,272,970) | (15,170,000) |
| Gross profit | | 4,879,650 | 5,145,949 | 15,438,163 | 14,252,302 | 5,790,231 | 5,420,395 | 17,000,000 |
| Operating income (expenses) | | (3,922,622) | (3,950,088) | (11,946,475) | 0,606,356) | (4,075,283) | (3,982,667) | (12,140,000) |
| Selling expenses | 23 | (3,199,016) | (3,124,939) | (9,643,209) | (8,800,115) | (3,324,498) | (3,156,618) | (9,810,000) |
| General and administrative expenses | 23 | (601,412) | (677,987) | (1,805,889) | (1,896,866) | (626,039) | (676,739) | (1,830,000) |
| Other operating income | 24 | 87,729 | 109,163 | 267,286 | 806,809 | 88,450 | 109,979 | 270,000 |
| Other operating expenses | 24 | (209,923) | (256,325) | (764,663) | (716,184) | (213,196) | (259,289) | (760,000) |
| Operating profit | | 957,028 | 1,195,861 | 3,491,688 | 3,645,946 | 1,714,948 | 1,437,728 | 4,850,000 |
| Financial income | 25 | 451,807 | 553,041 | 1,428,874 | 1,999,751 | 478,441 | 579,518 | 1,510,000 |
| Financial expenses | 25 | (651,613) | (872,304) | (2,223,033) | (2,943,720) | (648,953) | (875,856) | (2,230,000) |

| | | | | | | | | |
|---|----|------------------|------------------|------------------|------------------|------------------|------------------|-------------|
| Equity in results of investees | | 654,357 | 172,790 | 1,079,141 | 623,170 | 13 | 273 | |
| Income before taxes | | 1,411,579 | 1,049,388 | 3,776,670 | 3,325,147 | 1,544,449 | 1,141,663 | 4,13 |
| Income tax and social contribution | 26 | (188,863) | (96,698) | (684,835) | (454,731) | (321,733) | (188,973) | (1,04 |
| Net income for the period | | 1,222,716 | 952,690 | 3,091,835 | 2,870,416 | 1,222,716 | 952,690 | 3,09 |
| Basic and diluted earnings per common share (in R\$) | 21 | 0.68 | 0.53 | 1.72 | 1.59 | | | |
| Basic and diluted earnings per preferred share (in R\$) | 21 | 0.75 | 0.58 | 1.89 | 1.75 | | | |

(A free translation of the original in Portuguese)

TELEFÔNICA BRASIL S.A.
Statements of Changes in Equity
Nine-month periods ended September 30, 2017 and 2016
(In thousands of reais)

| | Capital | Premium on acquisition of interest | Other |
|--|-------------------|--|-------|
| Balances at December 31, 2015 | 63,571,416 | (75,388) | |
| Payment of additional dividend for 2015 | - | - | |
| Prescribed equity instruments | - | - | |
| DIPJ adjustment - Tax incentives | - | - | |
| Other comprehensive income | - | - | |
| Net income for the period | - | - | |
| Interim interest on equity | - | - | |
| Balances at September 30, 2016 | 63,571,416 | (75,388) | |
| Prescribed equity instruments | - | - | |
| Reclassification of premium on acquisition of equity interest by TData | - | 75,388 | |
| Preferred shares given referring to the judicial process of expansion plan | - | - | |
| DIPJ adjustment - Tax incentives | - | - | |
| 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, 2016 | 63,571,416 | - | |
| Payment of additional dividend for 2016 | - | - | |
| Prescribed equity instruments | - | - | |
| Repurchase of preferred shares | - | - | |
| Preferred shares delivered referring to the judicial process of expansion plan | - | - | |
| Effects of the acquisition of Terra Networks Brasil by Tdata (Note 1 e) | - | - | |
| DIPJ adjustment - Tax incentives | - | - | |
| Other comprehensive income | - | - | |
| Net income for the period | - | - | |
| Interim interest on equity | - | - | |

Balances at September 30, 2017

63,571,416

-

(A free translation of the original in Portuguese)

TELEFÔNICA BRASIL S.A.
Statements of Comprehensive Income
Three and nine-month periods ended September 30, 2017 and 2016

(In thousands of reais)

| | | Company | | |
|--|------|---------------------------|----------------|-----------------|
| | Note | Three-month periods ended | | Nine-month |
| | | 09.30.17 | 09.30.16 | 09.30. |
| Net income for the period | | 1,222,716 | 952,690 | 3,091,83 |
| Unrealized gains (losses) on investments available for sale | 10 | 66 | 442 | 4 |
| Taxes | | (22) | (150) | (13 |
| | | 44 | 292 | 2 |
| Gains (losses) on derivative financial instruments | 30 | (5,063) | 11,519 | (1,09 |
| Taxes | | 1,721 | (3,916) | 3 |
| | | (3,342) | 7,603 | (72 |
| Cumulative Translation Adjustments (CTA) on transactions in foreign currency | 10 | (637) | 1,272 | 6,4 |
| Other comprehensive income (losses) to be reclassified into income (losses) in subsequent periods | | (3,935) | 9,167 | 6,0 |
| Comprehensive income for the period, net of taxes | | 1,218,781 | 961,857 | 3,097,8 |

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TELEFÔNICA BRASIL S.A.
Statements of Cash Flow
Nine-month periods ended September 30, 2017 and 2016

(In thousands of *Reais*)

(A free

| | Company | |
|--|------------------|------------------|
| | 09.30.17 | 09.30.16 |
| <u>Operating activities</u> | | |
| Expenses (revenues) not representing changes in cash: | | |
| Income before taxes | 3,776,670 | 3,325,147 |
| Depreciation and amortization | 5,842,396 | 5,355,847 |
| Foreign exchange gains on loans and derivative financial instruments | 46,670 | 33,785 |
| Monetary losses | 476,343 | 444,315 |
| Equity in results of investees | (1,079,141) | (623,170) |
| Losses (gains) on write-off/sale of goods | 17,512 | (444,501) |
| Provision for impairment - accounts receivable | 1,037,677 | 900,456 |
| Provision of trade accounts payable | 176,907 | 488,222 |
| Write-off and reversals for impairment - inventories | (45,899) | (25,237) |
| Pension plans and other post-retirement benefits | 23,117 | (3,646) |
| Provisions for tax, civil, labor and regulatory contingencies | 640,383 | 713,451 |
| Interest expense | 770,991 | 791,998 |
| Other | 10,383 | (40,976) |
| Changes in assets and liabilities | | |
| Trade accounts receivable | (805,214) | (995,452) |
| Inventories | 63,800 | 130,177 |
| Taxes recoverable | (269,874) | (191,101) |
| Prepaid expenses | (62,142) | (35,009) |
| Other current assets | (52,717) | 114,698 |
| Other noncurrent assets | (27,032) | 38,179 |
| Personnel, social charges and benefits | 43,226 | 70,105 |
| Trade accounts payable | 298,318 | (1,190,760) |
| Taxes, charges and contributions | 494,612 | (43,163) |
| Other current liabilities | (1,292,664) | (385,542) |
| Other non-current liabilities | (1,060,039) | (619,652) |
| | 9,024,283 | 7,808,171 |
| Interest paid | (695,802) | (703,415) |

| | | | |
|---|--------------------|--------------------|------------|
| Income tax and social contribution paid | - | (190,670) | |
| Total cash generated by operating activities | 8,328,481 | 6,914,086 | 9 |
| <u>Investing activities</u> | | | |
| Additions to PP&E, intangible assets | (5,450,121) | (4,930,661) | (5) |
| Acquisition of company | - | - | |
| Cash received from sale of PP&E items | 18,267 | 771,757 | |
| Redemption of (increase in) judicial deposits | 49,816 | (148,895) | |
| Dividends and interest on equity received | 384,588 | 767,551 | |
| Cash and cash equivalents merged | - | 358,579 | |
| Cash and cash equivalents by company acquisition | - | - | |
| Total cash used in investing activities | (4,997,450) | (3,181,669) | (5) |
| <u>Financing activities</u> | | | |
| Payment of loans, financing and debentures | (3,551,465) | (1,726,423) | (3) |
| Funding from the issuance of loans, financing and debentures | 2,039,878 | 289,786 | 2 |
| Received from derivative financial instruments | 81,525 | 107,116 | |
| Payment of derivative financial instruments | (140,470) | (173,485) | |
| Payment for reverse split of shares | - | (164) | |
| Dividends and interest on equity paid | (1,304,161) | (1,070,594) | (1) |
| Repurchase of preferred shares | (32) | - | |
| Total cash generated by (used in) financing activities | (2,874,725) | (2,573,764) | (2) |
| Increase in cash and cash equivalents | 456,306 | 1,158,653 | |
| Cash and cash equivalents at beginning of the period | 4,675,627 | 4,206,595 | 5 |
| Cash and cash equivalents at end of the period | 5,131,933 | 5,365,248 | 5 |
| Changes in cash and cash equivalents for the period | 456,306 | 1,158,653 | |

(A free translation of the original in Portuguese)

TELEFÔNICA BRASIL S.A.
Statements of Value Added
Nine-month periods ended September 30, 2017 and 2016

(A free translation)

(In thousands in reais)

| | 09.30.17 | Company 09.30.16 | 09 |
|---|---------------------|-----------------------------|---------------|
| Revenues | 41,620,108 | 38,963,878 | 44,29 |
| Sale of goods and services | 41,795,634 | 39,127,923 | 44,51 |
| Other revenues | 862,151 | 736,411 | 89 |
| Provision for impairment of trade accounts receivable | (1,037,677) | (900,456) | (1,10 |
| Inputs acquired from third parties | (14,180,624) | (13,534,013) | (15,03 |
| Cost of goods and products sold and services rendered | (7,066,689) | (7,353,579) | (7,91 |
| Materials, electric energy, third-party services and other expenses | (7,111,989) | (6,638,664) | (7,12 |
| Assets (loss) recovery | (1,946) | 458,230 | (|
| Gross value added | 27,439,484 | 25,429,865 | 29,25 |
| Retentions | (5,842,396) | (5,355,847) | (5,86 |
| Depreciation and amortization | (5,842,396) | (5,355,847) | (5,86 |
| Net value added produced | 21,597,088 | 20,074,018 | 23,39 |
| Value added received in transfer | 2,508,015 | 2,622,921 | 1,51 |
| Equity in results of investees | 1,079,141 | 623,170 | |
| Financial income | 1,428,874 | 1,999,751 | 1,51 |
| Total value added | 24,105,103 | 22,696,939 | 24,90 |
| Distribution of value added | (24,105,103) | (22,696,939) | (24,90 |
| Personnel, social charges and benefits | (2,880,051) | (2,873,617) | (3,04 |
| Direct compensation | (1,944,017) | (2,005,797) | (2,04 |
| Benefits | (788,846) | (731,294) | (84 |
| FGTS (unemployment compensation fund) | (147,188) | (136,526) | (15 |
| Taxes, charges and contributions | (13,827,152) | (12,216,168) | (14,44 |
| Federal | (3,857,898) | (3,495,188) | (4,44 |
| State | (9,905,574) | (8,663,319) | (9,91 |
| Municipal | (63,680) | (57,661) | (8 |

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| | | | |
|-------------------------------|-------------|-------------|-------|
| Third-party debt remuneration | (4,306,065) | (4,736,738) | (4,32 |
| Interest | (2,174,890) | (2,900,586) | (2,18 |
| Rental | (2,131,175) | (1,836,152) | (2,13 |
| Equity remuneration | (3,091,835) | (2,870,416) | (3,09 |
| Retained profit | (3,091,835) | (2,870,416) | (3,09 |

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

1) THE COMPANY AND ITS OPERATIONS

a) Background information

Telefônica Brasil S.A. ("Company" or "Telefônica Brasil") is a publicly-traded 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, authorizations and permissions it has been granted. The Company, headquartered at Avenida Engenheiro Luiz Carlos Berrini, No. 1376, in the city and State of São Paulo, Brazil, is a member of Telefónica Group ("Group"), the telecommunications industry leader in Spain, also present in various European and Latin American countries.

At September 30, 2017 and December 31, 2016, Telefónica S.A. ("Telefónica"), the Group holding company based in Spain, held total direct and indirect interest in the Company of 73.58%, including treasury shares (Note 21).

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). 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"); (iv) Conditioned Access Service ("SEAC" - Pay TV), throughout Brazil, through concessions and authorizations, as established in the General Plan of Concessions ("PGO") and advertising services.

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

In accordance with the authorization terms for the usage of frequencies associated with SMP, in every two years after the first renewal of these agreements, the Company shall pay a fee equivalent to 2% of its prior-year SMP revenue, net of applicable taxes and social contribution taxes (Note 20), 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.

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

The information on the operation areas (regions) and due dates of the radiofrequency authorizations for SMP services is the same of Note 1b) Operations as disclosed in the financial statements for the year ended December 31, 2016.

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

The information on the acquisition process of GVTPart, which occurred in May 2015, is the same of Note 4) Acquisition of GVT Participações S.A. ("GVTPart"), as disclosed in the financial statements for the year ended December 31, 2016.

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

d) Corporate restructuring

The Shareholders' Meeting held on April 1, 2016, approved corporate restructuring in accordance with the terms and conditions proposed on March 14, 2016. The information on the Corporate Restructuring is the same as in Note 1c) Corporate Restructuring, as disclosed in the financial statements for the year ended December 31, 2016.

e) Acquisition of Terra Networks by Wholly-Owned Subsidiary

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

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

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

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

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

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

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

Accounting Method

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

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

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

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

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

| | | | |
|------------------------------------|----------------|--|----------------|
| Current assets | 163,579 | Current liabilities | 86,892 |
| Cash and cash equivalents | 43,351 | Personnel, social charges and benefits | 17,327 |
| Accounts receivable, net | 61,276 | Trade accounts payable | 51,198 |
| Derivative financial instruments | 404 | Taxes, charges and contributions | 14,643 |
| Taxes recoverable | 22,658 | Derivative financial instruments | 16 |
| Other assets | 35,890 | Other liabilities | 3,708 |
| Noncurrent assets | 228,575 | Noncurrent liabilities | 114,291 |
| Deferred taxes | 117,885 | Personnel, social charges and benefits | 508 |
| Judicial deposits and garnishments | 102,373 | Taxes, charges and contributions | 229 |
| Other assets | 740 | General Provisions | 112,874 |
| Property and equipment, net | | Other liabilities | |

| | | | |
|--------------------------------------|----------------|---|----------------|
| | 7,047 | | 680 |
| Intangible assets, net | 530 | | |
| | | Book value of assumed liabilities | 201,183 |
| | | Book value of identifiable net assets acquired | 190,971 |
| | | Total consideration | 250,000 |
| Book value of assets acquired | 392,154 | Adjustment to equity in TData and Company | 59,029 |

Provision for Probable Risks and Contingent Liabilities

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

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

| <u>Nature/Degree of Risk</u> | Amounts involved | |
|------------------------------|------------------|----------------|
| | Probable | Possible |
| Labor (1) | 19,282 | 50,104 |
| Civil (2) | 6,061 | 19,623 |
| Tax (3) | 87,531 | 927,309 |
| Federal (i) | 80,784 | 267,089 |
| State (ii) | - | 655,061 |
| Municipal (iii) | 6,747 | 5,159 |
| Total | 112,874 | 997,036 |

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Probable:

(1) Labor provisions: these refer to labor claims of former employees (who claim, among others, recognition of the role of journalist, payment of overtime, etc.) and outsourced employees (these claiming subsidiary or joint liability).

(2) Civil provisions: refer to: action filed by supplier regarding the transmission of events; PROCON fine (annulment action); enforcement action; indemnity action related to the use of content; and claim actions filed by former subscribers regarding unrecognized collection, collection of undue value and contractual noncompliance.

(3) Tax Provisions: refer to actions filed by Terra Networks questioning: (i) Federal: CIDE unconstitutionality of royalties; and (ii) Municipal: ISS exclusion from the PIS / COFINS calculation base on imports.

Possible:

(1) Labor contingencies: they refer to labor claims of former employees (who claim, among other things: recognition of the role of journalist, overtime payments, etc.) and outsourced employees (these claiming subsidiary or joint liability).

(2) Civil contingencies: refer to: action filed by supplier regarding the transmission of events; PROCON fine (annulment action); action indemnity relating to the use of content; ECAD action on copyright collection; and claim actions filed by former subscribers regarding unrecognized collection, collection of undue value and contractual noncompliance.

(3) Tax contingencies: these refer to administrative and judicial discussions, the most relevant of which are: (i) Federal: goodwill amortization expenses incurred in 2005 to 2008; manifestations of nonconformity in the face of disqualified compensation and a statement of operating expenses allegedly non-deductible and

related to estimated losses for the impairment of accounts receivable; (ii) State: ICMS on advertising services; and (iii) Municipal: ISS on data processing and similar and antivirus.

Other information

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

From the date of acquisition until the completion of this quarterly information, Terra Networks contributed R\$76,310 of consolidated net operating revenue and R\$156,822 of consolidated net income to the Company, mainly due to the recognition of R\$128,298 of income tax on tax losses and negative basis of social contribution (note 6 b).

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, and in compliance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

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

The consolidated 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 and nine-month periods ended September 30, 2017 are presented in thousands of *Reais* (unless otherwise stated), which is the functional currency of the Company.

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Management has assessed the Company's ability to continue operating normally and is convinced that it has the resources to continue its business in the future. In addition, Management is not aware of any material uncertainties that could generate significant doubts about its ability to continue operating. Therefore, these quarterly financial statements were prepared based on the assumption of continuity.

These quarterly financial statements compare the quarters ended September 30, 2017 and 2016, except for the balance sheets, that compare the positions as of September 30, 2017 and December 31, 2016.

The consolidated information for the three and nine months ended September 30, 2017 includes the amounts of Terra Networks, a consolidated company as of July 3, 2017.

The Board of Directors authorized the issue of these individual and consolidated financial statements at the meeting held on October 23, 2017.

Business segments are defined as components of a company for which separate financial information is available and regularly assessed by the operational decision makers 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. Consequently, the Company and subsidiaries operate in a single operating segment, namely the provision of telecommunications services.

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

As a result of the Corporate Restructuring process (Note 1d), which occurred on April 1, 2016, the individual quarterly financial statements for the nine-month period ended September 30, 2017 and 2016 are not comparable.

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 year ended December 31, 2016 (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, 2017, as described below:

- Improvements to IFRS 2014-2016 (amendments to IFRS 2014-2016), amendments: The amendments introduce a number of improvements to IFRS in force, mainly to eliminate inconsistencies and clarify the wording of some of these standards. The amendment to IFRS 12 clarifies the scope of the standard and will be applicable for fiscal years beginning on January 1, 2017, while other improvements will be effective in 2018.
 - IAS 7 - Cash Flow, amendments: The changes are part of the IASB disclosure initiative and require an entity to provide disclosures that enable users of financial statements to assess changes in liabilities arising from financing activities, including both the changes affecting cash flows, and changes that do not affect cash. At the initial adoption of the amendment, entities are not required to provide comparative information for prior periods.
 - IAS 12 - Income Taxes, amendments: The amendments clarify that an entity should consider whether tax legislation restricts sources of taxable income against which it may make deductions on the reversal of that deductible temporary difference. In addition, the amendments provide guidance on how an entity should determine future taxable income and explain the circumstances under which taxable income may include the recovery of some assets for amounts greater than their carrying amount. If an entity adopts the changes for an earlier period, it should disclose that fact.
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These changes are effective for annual periods beginning on January 1, 2017. The Company will consider these changes in the preparation of the annual financial statements ending on December 31, 2017, although the application of these changes does not have a material impact on the financial position of the Company.

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 adopt early any pronouncement, interpretation or amendment that has been issued, before application is mandatory.

| Standards and Amendments to the Standards | Effective as of: |
|--|-------------------------|
| IFRS 9 Financial Instruments, issued | January 1, 2018 |
| IFRS 15 Revenue from Contracts with Customers, as issued | January 1, 2018 |
| Clarifications to IFRS 15 , issued on April 12, 2016 | January 1, 2018 |
| IFRS 2 Classification and Valuation of Share Based Transactions, as amended | January 1, 2018 |
| IFRS 4 Insurance Contracts, as amended | January 1, 2018 |
| IAS 40 Investment Property Transfers, as amended | January 1, 2018 |
| IFRIC 22 Transactions in Foreign Currency and Advance Payments, as issued | January 1, 2018 |
| Annual Improvements to IFRS, 2014-2016 Cycle, as issued | January 1, 2018 |
| IFRS 16 Leases, as issued | January 1, 2019 |
| IFRIC 23 Uncertainties over Income Tax Treatments | January 1, 2019 |
| IFRS 17 Insurance Contracts | January 1, 2021 |
| IFRS 10, 12 and IAS 28 Investment Entities: Applying the Consolidation Exception, as amended | TBD |

Based on preliminary studies, the Company expects the implementation of many of these standards, changes and interpretations will not have a significant impact on the financial statements in the initial period of application. However, the Company expects the following standards issued, but not yet mandatory, may have significant impact on the Company's consolidated financial statements at the time of application and prospectively.

IFRS 9 - Financial Instruments, Issue: In July 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39 and all previous versions of IFRS 9.

IFRS 9 sets out the requirements for recognising and measuring financial instruments. As a result from the analysis of the effects of the new criteria introduced by this standard certain expected impacts have been identified in relation with to the following aspects, among others:

- Simplifies the current measurement model for financial assets and establishes 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 are not significant changes from current criteria except for the recognition of changes in own credit risk in OCI for those liabilities measured at fair value through profit or loss.
 - Introduces a new model for impairment losses on financial assets, i.e. the expected credit loss model, which replaces the current incurred loss model. Consequently, the application of the new requirements will probably lead to an acceleration in the recognition of impairment losses on financial assets.
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- Under current accounting, a hedge must be highly effective both, prospective and retrospectively, while IFRS 9 introduces a new, less restrictive, accounting model for hedging, requiring an economic relationship between the hedged item and the hedging instrument and that the coverage ratio be the same as that applied by the entity for its risk management. Likewise, the new standard modifies the criteria for documentation of hedging relationships.
- In addition, the Group's financial statements will include more detailed disclosures with relevant information regarding financial assets and liabilities.

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

The changes introduced by IFRS 9 will affect the recognition of financial assets and derivative financial instruments held as of January 1, 2018. The Company is carrying out the process of implementing the new criteria, but due to the relevance of the potentially affected items and the complexity of the estimates that it is not reasonably possible to quantify the impacts of the application of this standard on the date of the termination of these quarterly financial statements.

IFRS 15 - Revenue from Contracts with Customers. Issuance: IFRS 15 establishes criteria for the accounting of revenues from customer contracts. The Company is currently in the process of estimating the impacts of this new standard on its contracts. This analysis identified a number of expected impacts related to the following aspects, among others:

- Under the current accounting policy, the Company offers commercial packages that combine equipment and services of telephony, fixed and mobile, data, internet and television, total revenue of services is distributed among its elements identified based on their respective fair values.

Under IFRS 15, amounts will be allocated to each element based on the independent selling prices of each individual component in relation to the total price of the package and will be recognized (and measured) when the obligation is satisfied. The application of the new criteria will mean an acceleration in the recognition of equipment sales revenues, which are generally recognized at the time of delivery to the

final consumer. To the extent that the packages are marketed at a discount, the difference between the profit on sales of equipment and the amount received from the customer at the inception of the contract will be recognized as a contractual asset.

- Under the current accounting policy, all expenses directly related with obtaining a contract (sales commissions and other third party acquisition costs) are expensed when incurred. However, IFRS 15 requires the recognition of an asset for those costs that are incremental to obtain a contract and that are expected to be recovered and its subsequent amortisation over the same period as the revenue associated with such asset.
 - Compared to the current revenue standard, IFRS 15 sets out more detailed requirements on how to account for contract modifications. Certain changes must be accounted for as a retrospective change (as a continuation of the original contract), while other modifications must be accounted for prospectively (as separate contracts, like the end of the original contract and the creation of a new one).
 - In addition, the Group's financial statements will include more qualitative and quantitative disclosure of income-related accounts.
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The Company is progressing in the process of implementing the new requirements. This process involves the introduction of modifications to the current information systems, the implementation of new IT tools, and changes in the processes and controls of the entire revenue cycle. This process of implementation in the Company a high degree of complexity due to factors such as a large number of contracts, numerous data source systems, diversity of business models, as well as the need to make complex estimates. Thus, despite the progress in the degree of development of the new tools that support the application of the new requirements, the Company understands that at the closing date of these quarterly financial statements it can not reliably measure the impact of the application of this standard.

However, from the analysis performed on the transactions of the last financial year considering commercial offers as well as the volume of contracts affected, the Company estimates that the most significant impacts due to the changes introduced by IFRS 15 will relate to the transfer of revenues between services and sales of equipment and resultant acceleration of revenues, and the activation and deferral of the incremental costs related to the obtaining contracts.

In addition, IFRS 15 allows for two alternative transition methods: (i) retrospectively for each reporting period or (ii) retroactively with cumulative effect recognized at the date of initial application. The Company will adopt the second transition method, recognizing the accumulated effect of the new criteria as a reserve adjustment at the date of the initial application of IFRS 15.

IFRS 15 allows the adoption of certain practical solutions to facilitate the implementation of the new criteria.

After the analyzes carried out, the main practical solutions that the Company intends are:

- Not to apply the IFRS 15 retrospectively to contracts that are completed contracts at January 1, 2018.
- Portfolio of contracts: apply the requirements of the standard to groups of contracts with similar characteristics, since, for this cluster, the effects would not differ significantly from an application on a contract by contract basis.
- Financing component: it will not be considered significant when the period between when the promised good or service is transferred to a customer and when the customer pays for that good or service will be one year or less.
- Costs to obtain a contract: will be recognised as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

IFRS 16 - Leasing. Issuance: IFRS 16 establishes that companies acting as lessees must recognize in the balance sheet the assets and liabilities arising from all lease agreements (except for short-term lease agreements and those for low value assets).

The Company has a very large number of leases as a lessee of various assets, such as third-party towers, circuits, real estate and land (where the towers are primarily located). Under the current standard, significant portions of such contracts are classified as operating leases, where payments are generally recorded on a straight-line basis over the contract term.

The Company is currently in the process of estimating the impact of this new standard on such contracts. In this analysis, the estimate of the term of the lease is included, considering the non-cancellable period and the periods covered if exercised the option to extend the lease for those cases there exists reasonable certainty, which will depend, of the expected use of the Company's assets installed in the leased assets. In addition to this, will make assumptions to calculate the discount rate, which will mainly be based on the incremental borrowing rate of interest for the estimated term. The Company is considering not to separately recognise non-lease components from lease components for those classes of assets in which non-lease components are not material with respect to the total value of the lease.

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In addition to the mentioned estimations, the standard allows for two transition methods: (i) retrospectively for all periods presented or; (ii) 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 later transition method, therefore it 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 it not to reassess 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, as well as to the complexity of the estimates and the high number of contracts, the Company has not yet completed the implementation process, so that at the closing date of these quarterly financial statements it is not possible to reasonably estimate the impact that the application this standard.

However, based on the volume of contracts affected, as well as the magnitude of the future lease commitments, as disclosed in the Annual Financial Statements, the Company expects that the changes introduced by IFRS 16 would 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. The classification of payments in the statement of cash flows will also be affected by the adoption of IFRS 16. The financial statements of the Company will include more detailed disclosures with relevant information on the lease agreements.

c) Basis of consolidation

At September 30, 2017 and 2016 and December 31, 2016, the Company held the following direct equity interests:

| Investees | Type of investment | Equity interests | Country (Headquarters) |
|--------------------------------|-------------------------|------------------|------------------------|
| Telefônica Data S.A. ("TData") | Wholly-owned subsidiary | 100.00% | Brazil |

| | | | |
|--|-------------------------------|---------|---------|
| POP Internet Ltda ("POP") (note 1c) | Wholly-owned subsidiary | 100.00% | Brazil |
| Aliança Atlântica Holding B.V. ("Aliança") | Jointly-controlled subsidiary | 50.00% | Holland |
| Companhia AIX de Participações ("AIX") | Jointly-controlled subsidiary | 50.00% | Brazil |
| Companhia ACT de Participações ("ACT") | Jointly-controlled subsidiary | 50.00% | Brazil |

In the parent company financial statements interests held in subsidiaries or jointly-controlled entities are measured under the equity method. In the consolidated 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.

3) CASH AND CASH EQUIVALENTS

| | Company | | Consolidated | |
|------------------------|------------------|------------------|------------------|------------------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Cash and banks | 89,221 | 189,445 | 90,727 | 198,369 |
| Short-term investments | 5,042,712 | 4,486,182 | 5,480,329 | 4,906,741 |
| Total | 5,131,933 | 4,675,627 | 5,571,056 | 5,105,110 |

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

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4) TRADE ACCOUNTS RECEIVABLE, NET

| | Company | | Consolidated | |
|---|------------------|------------------|-------------------|-------------------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Billed amounts | 6,182,072 | 6,077,768 | 7,181,371 | 6,939,909 |
| Unbilled amounts | 1,931,661 | 1,898,630 | 2,172,144 | 1,930,708 |
| Interconnection amounts | 1,145,107 | 1,333,595 | 1,155,778 | 1,345,471 |
| Amounts from related parties (Note 27) | 168,265 | 177,741 | 194,658 | 190,906 |
| Gross accounts receivable | 9,427,105 | 9,487,734 | 10,703,951 | 10,406,994 |
| Estimated impairment losses | (1,176,346) | (1,004,512) | (1,622,411) | (1,399,895) |
| Total | 8,250,759 | 8,483,222 | 9,081,540 | 9,007,099 |
| Current | 8,072,174 | 8,282,685 | 8,791,035 | 8,701,688 |
| Non-current | 178,585 | 200,537 | 290,505 | 305,411 |

Consolidated balances of non-current trade accounts receivable include:

- R\$123,623 at September 30, 2017 (R\$143,265 at December 31, 2016), relating to the business model of resale of goods to legal entities, receivable within 24 months. At September 30, 2017, the impact of the present-value adjustment was R\$16,161 (R\$32,920 at December 31, 2016).
- R\$54,962, at September 30, 2017 (R\$57,272, at December 31, 2016), net of the present value adjustment relating to the portion of accounts receivable arising from negotiations on the bankruptcy process of companies from the OI group. At September 30, 2017, the impact of the present-value adjustment was R\$6,142 (R\$10,268 at December 31, 2016).

- R\$111,920, at September 30, 2017, (R\$104,874 at December 31, 2016), relating to "Solucion 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, 2017, the impact of the present-value adjustment was R\$2,625 (R\$3,005 at December 31, 2016).

The trade accounts receivable, relating to finance lease of "Solucion TI" product, comprise the following effects:

| | Consolidated | |
|---|----------------|----------------|
| | 09/30/17 | 12/31/16 |
| Nominal amount receivable | 617,910 | 611,384 |
| Deferred financial income | (2,625) | (3,005) |
| Present value of accounts receivable | 615,285 | 608,379 |
| Estimated impairment losses | (374,893) | (344,738) |
| Net amount receivable | 240,392 | 263,641 |
| Current | 128,472 | 158,767 |
| Non-current | 111,920 | 104,874 |

At September 30, 2017, the aging of gross trade accounts receivable relating to "Solucion TI" product is as follows:

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| | Nominal amount receivable | Consolidated Present value of accounts receivable |
|--|---------------------------|--|
| Falling due within one year | 329,746 | 329,746 |
| Falling due between one year and five years | 288,164 | 285,539 |
| Total | 617,910 | 615,285 |

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

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

| | Company | | Consolidated | |
|--------------------------|------------------|------------------|------------------|------------------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Falling due | 6,138,015 | 6,392,442 | 6,863,672 | 6,841,752 |
| Overdue – 1 to 30 days | 1,025,357 | 1,025,630 | 1,144,873 | 1,073,568 |
| Overdue – 31 to 60 days | 342,526 | 309,210 | 348,852 | 322,485 |
| Overdue – 61 to 90 days | 228,378 | 225,132 | 230,858 | 227,010 |
| Overdue – 91 to 120 days | 139,559 | 110,813 | 137,668 | 105,048 |
| Overdue – over 120 days | 376,924 | 419,995 | 355,617 | 437,236 |
| Total | 8,250,759 | 8,483,222 | 9,081,540 | 9,007,099 |

At September 30, 2017 and December 31, 2016, no customer represented more than 10% of trade accounts receivable, net.

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

| | Company | Consolidated |
|--|--------------------|--------------------|
| Balance at 12/31/15 | (1,650,112) | (2,217,926) |
| Increase to estimated losses (Note 23) | (1,233,831) | (1,378,453) |
| Reversal of estimated losses (Note 23) | 333,375 | 374,477 |
| Write-off due to use | 721,869 | 767,326 |
| Merger (Note 1d) | (160,720) | - |
| Balance at 09/30/16 | (1,989,419) | (2,454,576) |
| Increase to estimated losses | (433,528) | (465,322) |
| Reversal of estimated losses | 108,242 | 121,077 |
| Write-off due to use | 1,310,193 | 1,398,926 |
| Balance at 12/31/16 | (1,004,512) | (1,399,895) |
| Increase to estimated losses (Note 23) | (1,320,281) | (1,414,918) |
| Reversal of estimated losses (Note 23) | 282,604 | 305,993 |
| Write-off due to use | 865,843 | 895,128 |
| Business combination (Note 1e) | - | (8,719) |
| Balance at 09/30/17 | (1,176,346) | (1,622,411) |

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

5) INVENTORIES, NET

| | Company | | Consolidated | |
|--|----------------|----------------|----------------|----------------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Materials for resale (1) | 309,492 | 335,281 | 338,890 | 377,465 |
| Materials for consumption | 65,584 | 75,086 | 68,411 | 77,732 |
| Other inventories | 7,918 | 7,892 | 7,918 | 7,892 |
| Gross total | 382,994 | 418,259 | 415,219 | 463,089 |
| Estimated losses from impairment or obsolescence | (32,744) | (50,108) | (34,609) | (52,676) |
| Total | 350,250 | 368,151 | 380,610 | 410,413 |

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

Changes in estimated impairment losses and inventory obsolescence are as follows:

| | Company | Consolidated |
|------------------------------|-----------------|-----------------|
| Balance at 12/31/15 | (48,390) | (52,341) |
| Increase to estimated losses | (11,582) | (14,874) |
| Reversal of estimated losses | 10,196 | 15,278 |
| Balance at 09/30/16 | (49,776) | (51,937) |
| Increase to estimated losses | (13,361) | (14,881) |
| Reversal of estimated losses | 13,029 | 14,142 |
| Balance at 12/31/16 | | |

| | | |
|------------------------------|-----------------|-----------------|
| | (50,108) | (52,676) |
| Increase to estimated losses | (16,798) | (20,462) |
| Reversal of estimated losses | 34,162 | 38,529 |
| Balance at 09/30/17 | (32,744) | (34,609) |

Additions and reversals of estimated impairment losses and inventory obsolescence are included in cost of goods sold (Note 23).

6) DEFERRED TAXES AND TAXES RECOVERABLE

a) Taxes recoverable

| | Company | | Consolidated | |
|--|------------------|------------------|------------------|------------------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| State VAT (ICMS) (1) | 2,377,488 | 2,317,739 | 2,388,798 | 2,329,159 |
| Income and social contribution taxes recoverable (2) | 401,314 | 829,160 | 403,477 | 830,549 |
| Withholding taxes and contributions (3) | 170,290 | 131,915 | 198,470 | 157,371 |
| PIS and COFINS | 67,323 | 125,273 | 73,167 | 148,759 |
| INSS, ISS and other taxes | 8,126 | 22,775 | 27,126 | 38,236 |
| Total | 3,024,541 | 3,426,862 | 3,091,038 | 3,504,074 |
| Current | 2,599,093 | 2,952,622 | 2,662,630 | 3,027,230 |
| Non-current | 425,448 | 474,240 | 428,408 | 476,844 |

(1) This includes credits 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\$383,263 and R\$370,770 on September 30, 2017 and December 31, 2016, respectively.

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

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

b) Deferred taxes

Deferred income tax and social contribution 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 tax and social contribution are as follows:

| | Balances at 12/31/15 | Income statement | Comprehensive income | Merger (note 1d) | Balances at 09/30/16 | Comprehensive Income statement |
|--|-------------------------|---------------------|-------------------------|---------------------|-------------------------|--------------------------------------|
| <u>Deferred tax assets</u> | | | | | | |
| <u>(liabilities)</u> | | | | | | |
| Income and social contribution taxes on tax losses (1) | - | - | - | - | - | 1,376 |
| Income and social contribution taxes on temporary differences (2) | (155,951) | (269,733) | 1,866 | 705,367 | 281,549 | (447,036) |
| Provisions for legal, labor, tax civil and regulatory contingencies | 1,681,016 535,001 | 191,462 | - - | 282,751 | 2,155,229 701,388 | 65,826 |

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| | | | | | | |
|---|-------------|-----------|-------|---------|-------------|-----------|
| Trade accounts payable and other provisions | | 99,932 | | 66,455 | | (93,230) |
| Customer portfolio and trademarks | 256,056 | (47,167) | - | 119,695 | 328,584 | (15,493) |
| Estimated losses on impairment of accounts receivable | 369,174 | 77,798 | - | 54,645 | 501,617 | (160,082) |
| Estimated losses from modems and other P&E items | 170,132 | (2,966) | - | 122,696 | 289,862 | (7,595) |
| Pension plans and other post-employment benefits | 26,164 | 4,284 | - | - | 30,448 | (2,504) |
| Profit sharing | 88,944 | (3,312) | - | 3,963 | 89,595 | 34,316 |
| Provision for loyalty program | 32,604 | (13,331) | - | - | 19,273 | (161) |
| Accelerated accounting depreciation | 10,865 | (2,021) | - | - | 8,844 | 15,189 |
| Estimated impairment losses on inventories | 9,364 | (13,200) | - | 13,620 | 9,784 | 1,443 |
| Derivative transactions | 47,911 | 37,758 | 1,958 | 10,523 | 98,150 | (34,867) |
| Licenses | (1,204,226) | (162,247) | - | - | (1,366,473) | (54,083) |
| Effects of goodwill generated in the merger of Vivo Part. | (809,600) | (45,726) | - | - | (855,326) | (8,994) |
| Goodwill from Spanish and Navytree | (337,535) | - | - | - | (337,535) | - |
| Goodwill from Vivo Part. | (837,918) | (125,403) | - | - | (963,321) | (41,799) |
| Goodwill from GVT Part. | - | (348,152) | - | - | (348,152) | (174,076) |
| Technological Innovation Law | (193,146) | 44,854 | - | - | (148,292) | 7,352 |
| Income and social contribution taxes on other temporary | (757) | 37,704 | (92) | 31,019 | 67,874 | 21,722 |

differences (3)

| | | | | | | |
|---|--------------------|------------------|--------------|----------------|--------------------|------------------|
| Total | (155,951) | (269,733) | 1,866 | 705,367 | 281,549 | (445,660) |
| Deferred tax assets | 3,535,671 | | | | 4,487,737 | |
| Deferred tax liabilities | (3,691,622) | | | | (4,206,188) | |
| Deferred tax assets (liabilities), net | (155,951) | | | | 281,549 | |
| Represented in the balance sheet as follows: | | | | | | |
| Deferred tax assets | - | | | | 281,549 | |
| Deferred tax liabilities | (155,951) | | | | - | |

| | Balances at 12/31/15 | Income statement | Comprehensive income | Balances at 09/30/16 | Income statement | Comprehensive income |
|--|-------------------------|---------------------|-------------------------|-------------------------|---------------------|-------------------------|
| <u>Deferred tax assets (liabilities)</u> | | | | | | |
| Income and social contribution taxes on tax losses (1) | 26,519 | (13,382) | - | 13,137 | 934 | |
| Income and social contribution taxes on temporary differences (2) | 685,071 | (282,707) | 1,866 | 404,230 | (466,262) | 76,977 |
| Provisions for legal, labor, tax civil and regulatory contingencies | 1,954,236 | 210,433 | - | 2,164,669 | 65,667 | |
| Trade accounts payable and other provisions | 687,124 | 86,376 | - | 773,500 | (96,377) | |
| Estimated losses on impairment of accounts | 447,018 | 82,895 | - | 529,913 | (171,108) | |

| | | | | | | |
|---|----------------|------------------|--------------|----------------|------------------|--------------|
| receivable | | | | | | |
| Customer portfolio and trademarks | 343,107 | (14,523) | - | 328,584 | (15,492) | |
| Estimated losses from modems and other P&E items | 294,945 | (2,584) | - | 292,361 | (7,684) | |
| Pension plans and other post-employment benefits | 26,285 | 4,176 | - | 30,461 | (2,543) | 80,50 |
| Profit sharing | 106,198 | (15,162) | - | 91,036 | 34,220 | |
| Provision for loyalty program | 32,604 | (13,331) | - | 19,273 | (161) | |
| Accelerated accounting depreciation | 10,865 | (2,021) | - | 8,844 | 15,189 | |
| Estimated impairment losses on inventories | 10,707 | (188) | - | 10,519 | 1,580 | |
| Derivative transactions | 59,408 | 36,953 | 1,958 | 98,319 | (34,595) | (3,591) |
| Licenses | (1,204,226) | (162,247) | - | (1,366,473) | (54,083) | |
| Effects of goodwill generated in the acquisition of Vivo Part. | (809,600) | (45,726) | - | (855,326) | (8,994) | |
| Goodwill from Spanish and Navytree | (337,535) | - | - | (337,535) | - | |
| Goodwill from Vivo Part. | (837,918) | (125,403) | - | (963,321) | (41,799) | |
| Goodwill from GVTPart. | - | (348,152) | - | (348,152) | (174,076) | |
| Technological Innovation Law | (193,146) | 44,854 | - | (148,292) | 7,352 | |
| Income and social contribution taxes on other temporary differences (3) | 94,999 | (19,057) | (92) | 75,850 | 16,642 | 6 |
| Total deferred tax assets (liabilities), noncurrent | 711,590 | (296,089) | 1,866 | 417,367 | (465,328) | 76,97 |

| | | |
|---|--------------------|--------------------|
| Deferred tax assets | 4,153,054 | 4,616,058 |
| Deferred tax liabilities | (3,441,464) | (4,198,691) |
| Deferred tax assets (liabilities), net | 711,590 | 417,367 |
| Represented in the balance sheet as follows: | | |
| Deferred tax assets | 711,590 | 417,367 |
| Deferred tax liabilities | - | - |

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(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. After the acquisition of Terra Networks by TData and based on the commercial and operational synergies resulting from the integration of this operation, a new strategic plan was elaborated for the next 10 years for Terra Networks, where this projection indicated a generation of taxable profits, enough to compensate the temporary differences and tax loss carryforwards in Terra Networks (note 1 e).

(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, subsidy on the sale of mobile phones, among others.

At September 30, 2017, deferred tax credits (income tax and social contribution losses) were not recognized in indirect subsidiaries (Innoweb and TGLog) accounting records, in the amount of R\$11,588 (R\$2,993 at December 31, 2016), as it is not probable that future taxable profits will be available to use them.

7) JUDICIAL DEPOSITS AND GARNISHMENTS

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

| | Company | | Consolidated | |
|-------------------|-----------|-----------|--------------|-----------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Judicial deposits | | | | |
| Tax | 4,017,908 | 3,698,966 | 4,172,267 | 3,758,787 |

| | | | | |
|--------------|------------------|------------------|------------------|------------------|
| Labor | 921,322 | 1,040,635 | 940,658 | 1,051,430 |
| Civil | 1,177,078 | 1,107,929 | 1,180,098 | 1,109,001 |
| Regulatory | 198,282 | 276,604 | 198,282 | 276,604 |
| Total | 6,314,590 | 6,124,134 | 6,491,305 | 6,195,822 |
| Garnishments | 145,811 | 152,948 | 149,102 | 155,744 |
| Total | 6,460,401 | 6,277,082 | 6,640,407 | 6,351,566 |
| Current | 305,386 | 302,349 | 305,525 | 302,424 |
| Non-current | 6,155,015 | 5,974,733 | 6,334,882 | 6,049,142 |

The information related to tax-related judicial deposits is the same as in Note 9) Judicial Deposits and Garnishments, as disclosed in the financial statements for the year ended December 31, 2016.

On September 30, 2017, the Company and its subsidiaries had several tax-related judicial deposits in the consolidated amount of R\$4,172,267 (R\$3,758,787 at December 31, 2016). In Note 17, we provide further details on issues arising from the most significant judicial deposits.

The table below presents the composition of the balances as of September 30, 2017 and December 31, 2016 of the tax judicial deposits (segregated and summarized by tribute).

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| | Consolidated | |
|---|------------------|------------------|
| | 09/30/17 | 12/31/16 |
| Contribution to Empresa Brasil de Comunicação (EBC) | 1,220,441 | 1,053,867 |
| Telecommunications Inspection Fund (FISTEL) | 1,145,195 | 1,095,789 |
| Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL) | 512,072 | 449,988 |
| Universal Telecommunication Services Fund (FUST) | 479,964 | 456,977 |
| Social Contribution Tax for Intervention in the Economic Order (CIDE) | 275,027 | 176,557 |
| State Value-Added Tax (ICMS) | 260,056 | 212,652 |
| Social Security, work accident insurance (SAT) and funds to third parties (INSS) | 121,614 | 128,458 |
| Withholding Income Tax (IRRF) | 45,375 | 73,848 |
| Contribution tax on gross revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS) | 28,635 | 35,570 |
| Other taxes, charges and contributions | 83,888 | 75,081 |
| Total | 4,172,267 | 3,758,787 |

8) PREPAID EXPENSES

| | Company | | Consolidated | |
|---------------------------|----------|----------|--------------|----------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Fistel Fee (1) | 267,536 | - | 267,536 | - |
| Advertising and publicity | 90,311 | 258,212 | 91,258 | 258,212 |
| Insurance | 44,383 | 39,008 | 44,753 | 39,558 |
| Rental | 31,302 | 19,276 | 31,302 | 19,276 |

| | | | | |
|--|----------------|----------------|----------------|----------------|
| Software and networks maintenance | 35,348 | 10,204 | 37,666 | 12,283 |
| Taxes, financial charges, personal and other (2) | 65,619 | 45,148 | 76,804 | 50,193 |
| Total | 534,499 | 371,848 | 549,319 | 379,522 |
| Current | 509,746 | 336,508 | 521,540 | 343,092 |
| Non-current | 24,753 | 35,340 | 27,779 | 36,430 |

(1) Refers to the remaining portion of the Inspection and Operation Fee amounts paid in March 2017, based on the 2016 fiscal year, which will be amortized to the result until the end of the year.

(2) At September 30, 2017, the consolidated amount includes R\$29,021 related to IPTU and the renewal of SMP and STFC licenses, which will be amortized to the result until the end of the year.

9) OTHER ASSETS

| | Company | | Consolidated | |
|--|----------------|----------------|----------------|----------------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Advances to employees and suppliers | 98,996 | 81,325 | 101,008 | 83,634 |
| Related-party receivables (Note 27) | 347,243 | 311,633 | 150,246 | 250,679 |
| Receivables from suppliers | 112,176 | 96,065 | 112,732 | 99,166 |
| Subsidy on handset sales | 15,742 | 30,491 | 15,742 | 30,491 |
| Surplus from post-employment benefit plans (Note 29) | 9,441 | 8,838 | 9,672 | 9,041 |
| Other amounts receivable | 39,738 | 20,391 | 48,808 | 22,649 |
| Total | 623,336 | 548,743 | 438,208 | 495,660 |
| Current | 544,090 | 495,380 | 356,346 | 440,095 |
| Non-current | 79,246 | 53,363 | 81,862 | 55,565 |

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10) INVESTMENTS

a) Information on investees

The information related to subsidiaries and jointly-controlled entities is the same as in Note 12) Investments, as disclosed in the financial statements for the year ended December 31, 2016.

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

| | At 09/30/17 | | | | | | Consolidated wholly-owned subsidiaries TData |
|--|--|----------------|---------------------------------|---------------|----------------|--|--|
| | Consolidated wholly-owned subsidiaries | | Jointly-controlled subsidiaries | | | Consolidated wholly-owned subsidiaries TData | |
| | TData | POP | Cia ACT | Cia AIX | Aliança | | |
| Capital | 100.00% | 100.00% | 50.00% | 50.00% | 50.00% | 100.00% | |
| <u>Summary of balance sheets:</u> | | | | | | | |
| Current assets | 2,076,464 | 32,145 | 16 | 24,083 | 158,083 | 1,414,039 | |
| Non-current assets | 703,483 | 52,396 | - | 11,686 | - | 362,195 | |
| Total assets | 2,779,947 | 84,541 | 16 | 35,769 | 158,083 | 1,776,234 | |
| Current liabilities | 892,045 | 47,918 | 2 | 4,554 | 73 | 633,631 | |
| Non-current liabilities | 180,984 | 27 | - | 4,723 | - | 63,139 | |
| Equity | 1,706,918 | 36,596 | 14 | 26,492 | 158,010 | 1,079,464 | |
| Total liabilities and equity | 2,779,947 | 84,541 | 16 | 35,769 | 158,083 | 1,776,234 | |
| Investment Book value | 1,706,918 | 36,596 | 7 | 13,246 | 79,005 | 1,079,464 | |

| <u>Summary of Income Statements:</u> | At 09/30/17 | | | | | | Consolidated wholly-owned subsidiaries TData | POP (2) |
|---|--|-----|---------------------------------|---------|---------|--|--|---------|
| | Consolidated wholly-owned subsidiaries | | Jointly-controlled subsidiaries | | | Consolidated wholly-owned subsidiaries TData | | |
| | TData | POP | Cia ACT | Cia AIX | Aliança | | | |
| | | | | | | | | |

| | | | | | | | |
|--|------------------|--------------|----------|--------------|----------|----------------|--------------|
| Net operating income | 2,515,027 | 22,014 | 62 | 34,146 | - | 1,866,828 | 24,485 |
| Operating costs and expenses | (1,160,069) | (12,236) | (62) | (31,886) | (14) | (1,091,086) | (14,689) |
| Financial income (expenses), net | 67,862 | 1,127 | - | 1,019 | 18 | 63,800 | 1,753 |
| Income and social contribution taxes | (351,749) | (4,197) | - | (559) | - | (288,651) | (4,867) |
| Net income (loss) for the period | 1,071,071 | 6,708 | - | 2,720 | 4 | 550,891 | 6,682 |
| Equity pickup, according to interest held | 1,071,071 | 6,708 | - | 1,360 | 2 | 550,891 | 6,682 |

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

(2) Includes the consolidated result of POP for the period from 04/01 to 06/30/16. Until 03/31/16, POP was indirectly controlled by GVTPart.

b) Changes in investments

| | Consolidated wholly-owned subsidiaries | | | Jointly-controlled subsidiaries | | |
|----------------------------------|--|---------------|------------------|---------------------------------|---------------|----------|
| | TData | POP | GVTPart. | Aliança | AIX | ACT |
| Balances at 12/31/15 | 1,056,305 | - | 7,674,444 | 89,799 | 10,099 | 4 |
| Equity pick-up | 550,891 | 6,682 | 132,241 | (45) | 1,040 | 2 |
| Merger (nota 1d) | - | 22,590 | (7,806,685) | - | - | - |
| Dividends and interest on equity | (749,395) | - | - | - | 489 | - |
| Other comprehensive income | - | - | - | (13,250) | - | - |
| Balances at 09/30/16 | 857,801 | 29,272 | - | 76,504 | 11,628 | 6 |
| Equity pick-up | 221,743 | 616 | - | (12) | 258 | 1 |
| Other comprehensive income | (80) | - | - | (3,982) | - | - |

| | | | | | | |
|---|------------------|---------------|----------|---------------|---------------|----------|
| Balances at 12/31/16 | 1,079,464 | 29,888 | - | 72,510 | 11,886 | 7 |
| Equity pick-up | 1,071,071 | 6,708 | - | 2 | 1,360 | - |
| Dividends and interest on equity | (384,588) | - | - | - | - | - |
| Effects of the acquisition of Terra Networks Brasil by TData (note 1e) | (59,029) | - | - | - | - | - |
| Other comprehensive income | - | - | - | 6,493 | - | - |
| Balances at 09/30/17 | 1,706,918 | 36,596 | - | 79,005 | 13,246 | 7 |

(1) Goodwill: (i) R\$212,058 from partial spin-off of "Spanish and Figueira", which was reversed to the Company upon merger with Telefônica Data Brasil Holding S.A. (TDBH) in 2006; and (ii) R\$12,837,141 originated from the acquisition of GVTPart. in 2015 (Note 1c).

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

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11) PROPERTY, PLANT AND EQUIPMENT, NET

a) Breakdown and changes

| | Company | | | | | | |
|---|------------------------|--|-----------------------------------|------------------|----------------|----------------|-----------------------|
| | Switching equipment | Transmission equipment and media | Terminal equipment / modems | Infrastructure | Land | Other P&E | Estimated losses (|
| <u>Balances and changes:</u> | | | | | | | |
| Balance at 12/31/15 | 2,796,041 | 11,680,029 | 1,530,793 | 3,371,532 | 313,105 | 711,085 | (155,27 |
| Additions | 1,364 | 224,862 | 63,341 | 42,062 | - | 182,511 | (11,35 |
| Write-offs, net (2) | (1,159) | (14,060) | (213) | (98,700) | (201) | (391) | 2,99 |
| Net transfers | 473,263 | 1,837,554 | 525,172 | 283,949 | - | (44,578) | (|
| Depreciation (Note 23) | (462,401) | (1,577,051) | (929,502) | (377,717) | - | (208,052) | |
| Merger (Note 1d) | 1,039,161 | 5,269,872 | 1,572,567 | 428,622 | 2,601 | 159,039 | (331,95 |
| Balance at 09/30/16 | 3,846,269 | 17,421,206 | 2,762,158 | 3,649,748 | 315,505 | 799,614 | (495,60 |
| Additions | - | 129,065 | 25,312 | 115,039 | 215 | 121,665 | (8,49 |
| Write-offs, net | - | (5,228) | (254) | (179) | (1) | (360) | 18,7 |
| Net transfers | 169,891 | 1,212,633 | 168,195 | 77,956 | - | 6,340 | (|
| Depreciation | (63,677) | (478,534) | (374,232) | (127,070) | - | (149,211) | |
| | 3,952,483 | | | | | | |

| | | | | | | | |
|--------------------------------|------------------|-------------------|------------------|------------------|----------------|----------------|-----------------|
| Balance at 12/31/16 | | 18,279,142 | 2,581,179 | 3,715,494 | 315,719 | 778,048 | (485,38) |
| Additions | - | 26,974 | 93,740 | 59,964 | 550 | 157,492 | (30,31) |
| Write-offs, net | (569) | (71,400) | (5,740) | (6,481) | (1,914) | (1,842) | 63,88 |
| Net transfers | 633,700 | 1,898,412 | 1,003,391 | 398,917 | - | 3,834 | 132,57 |
| Depreciation (Note 23) | (438,869) | (1,792,921) | (1,049,402) | (407,043) | - | (236,992) | |
| Balance at 09/30/17 | 4,146,745 | 18,340,207 | 2,623,168 | 3,760,851 | 314,355 | 700,540 | (319,24) |
| At 12/31/16 | | | | | | | |
| Cost | 20,051,571 | 50,730,016 | 15,246,317 | 14,944,006 | 315,719 | 4,181,817 | (485,38) |
| Accumulated depreciation | (16,099,088) | (32,450,874) | (12,665,138) | (11,228,512) | - | (3,403,769) | |
| Total | 3,952,483 | 18,279,142 | 2,581,179 | 3,715,494 | 315,719 | 778,048 | (485,38) |
| At 09/30/17 | | | | | | | |
| Cost | 20,706,517 | 52,370,887 | 16,324,100 | 15,377,759 | 314,355 | 4,327,198 | (319,24) |
| Accumulated depreciation | (16,559,772) | (34,030,680) | (13,700,932) | (11,616,908) | - | (3,626,658) | |
| Total | 4,146,745 | 18,340,207 | 2,623,168 | 3,760,851 | 314,355 | 700,540 | (319,24) |

Telefônica Brasil S. A.

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

| | Consolidated | | | | | | |
|------------------------------|---------------------|----------------------------------|-----------------------------|------------------|----------------|------------------|------------|
| | Switching equipment | Transmission equipment and media | Terminal equipment / modems | Infrastructure | Land | Other P&E | Es los |
| Balances and changes: | | | | | | | |
| Balance at 12/31/15 | 3,958,959 | 16,977,004 | 3,146,109 | 3,655,951 | 315,705 | 1,066,452 | (4) |
| Additions | 16,135 | 489,397 | 178,309 | 43,680 | - | 156,777 | (|
| Write-offs, net (2) | (2,793) | (16,216) | (562) | (99,258) | (201) | 3,417 | |
| Net transfers | 392,186 | 1,698,621 | 509,378 | 446,462 | - | (166,358) | |
| Depreciation (Note 23) | (518,084) | (1,727,495) | (1,062,965) | (386,563) | - | (227,170) | |
| Balance at 09/30/16 | 3,846,403 | 17,421,311 | 2,770,269 | 3,660,272 | 315,504 | 833,118 | (4) |
| Additions | 38 | 129,065 | 25,466 | 115,401 | 215 | 131,889 | |
| Write-offs, net | - | (5,227) | (254) | (179) | - | (358) | |
| Net transfers | 169,892 | 1,212,633 | 168,194 | 77,533 | - | 6,656 | |
| Depreciation (Note 23) | (63,693) | (478,548) | (375,368) | (127,820) | - | (151,949) | |
| Balance at 12/31/16 | 3,952,640 | 18,279,234 | 2,588,307 | 3,725,207 | 315,719 | 819,356 | (4) |
| Additions | - | 26,974 | 93,740 | 59,964 | 550 | 168,027 | (|
| Write-offs, net | (569) | (71,400) | (5,740) | (6,757) | (1,914) | (1,793) | |
| Net transfers | 633,700 | 1,898,412 | 1,003,391 | 398,917 | - | 22,470 | 1 |
| Depreciation (Note 23) | (438,915) | (1,792,961) | (1,051,483) | (409,354) | - | (252,353) | |

| | | | | | | | |
|--------------------------------|------------------|-------------------|------------------|------------------|----------------|----------------|------------|
| Business combination (Note 1e) | - | - | - | 1,342 | - | 4,888 | |
| Balance at 09/30/17 | 4,146,856 | 18,340,259 | 2,628,215 | 3,769,319 | 314,355 | 760,595 | (3) |
| At 12.31.16 | | | | | | | |
| Cost | 20,058,838 | 50,730,696 | 15,294,619 | 15,023,890 | 315,719 | 4,308,718 | (4) |
| Accumulated depreciation | (16,106,198) | (32,451,462) | (12,706,312) | (11,298,683) | - | (3,489,362) | |
| Total | 3,952,640 | 18,279,234 | 2,588,307 | 3,725,207 | 315,719 | 819,356 | (4) |
| At 09/30/17 | | | | | | | |
| Cost | 20,713,784 | 52,371,567 | 16,372,399 | 15,478,183 | 314,355 | 4,599,547 | (3) |
| Accumulated depreciation | (16,566,928) | (34,031,308) | (13,744,184) | (11,708,864) | - | (3,838,952) | |
| Total | 4,146,856 | 18,340,259 | 2,628,215 | 3,769,319 | 314,355 | 760,595 | (3) |

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

(2) Net write-offs regarding "Infrastructure and Assets and Facilities under Construction" for the period ended September 30, 2016, include the amount of R\$99,210 regarding the disposal of 1,655 towers owned by the Company to Telxius Torres Brasil Ltda., a Telefónica subsidiary.

b) Depreciation rates

In the last quarter of 2016, in accordance with IAS 16 / CPC 27, the Company performed, in conjunction with a specialized company, valuations of useful lives applied to its property, plant and equipment using the direct comparative method of market data. The studies indicated the need for changes in useful life and annual depreciation rates for some items of asset classes.

The following table sets forth the depreciation rates of property, plant and equipment of the Company and its subsidiaries, which are depreciated on a straight-line basis at the annual rate, as follows:

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| Description | Annual depreciation rate (%) | | | |
|-------------------------------------|------------------------------|----------------------|-------------------|----------------------|
| | Company | | Consolidated | |
| | Previous | Revised / Current | Previous | Revised / Current |
| | 10.00 to | | | 5.00 to |
| Switching equipment | 14.29 | 5.00 to 14.29 | 8.33 to 20.00 | 20.00 |
| Transmission equipment and media | 5.00 to 14.29 | 2.50 to 25.00 | 2.50 to 25.00 | 2.50 to 25.00 |
| Terminal equipment / modems | 10.00 to 66.67 | 6.67 to 66.67 | 10.00 to 66.67 | 6.67 to 66.67 |
| Infrastructure | 2.50 to 66.67 | 2.50 to 66.67 | 2.50 to 66.67 | 2.50 to 66.67 |
| Other P&E assets | 10.00 to 25.00 | 10.00 to 25.00 | 10.00 to 66.67 | 10.00 to 25.00 |

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c) Property and equipment items pledged in guarantee

At September 30, 2017, the Company had consolidated amounts of property and equipment items pledged in guarantee for lawsuits, amounting to R\$174,803 (R\$203,600 at December 31, 2016).

d) Capitalization of borrowing costs

At September 30, 2017 and December 31, 2016, the Company and its subsidiaries did not capitalize borrowing costs, as there were no qualifying assets.

e) Reversible assets

The STFC service concession arrangement establishes that all assets owned by the Company and that are indispensable to the provision of the services described in the referred to arrangement are considered “reversible” (returnable to the concession authority). At September 30, 2017, estimated residual value of reversible assets was R\$8,770,432 (R\$8,813,916 at December 31, 2016), which comprised switching and transmission equipment and public use terminals, external network equipment, energy, system and operational support equipment.

f) Finance leases

Below are the amounts related to finance lease arrangements, in which the Company is a lessee, segregated by type of property and equipment item.

| | Consolidated | |
|----------|--------------|----------|
| 09.30.17 | | 12.31.16 |

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| | Annual depreciation rates (%) | P&E Cost | Accumulated depreciation | Net balance | P&E Cost | Accumulated depreciation | Net balance |
|--|-------------------------------------|----------------|-----------------------------|----------------|----------------|-----------------------------|----------------|
| Transmission equipment and media | 5.00% to 8.33% | 252,233 | (48,760) | 203,473 | 223,360 | (34,203) | 189,157 |
| Infrastructure | 4.00% | 72,253 | (12,131) | 60,122 | 67,386 | (8,822) | 58,564 |
| Other assets | 20.00% | 116,945 | (96,332) | 20,613 | 145,818 | (94,935) | 50,883 |
| Total | | 441,431 | (157,223) | 284,208 | 436,564 | (137,960) | 298,604 |

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

12) INTANGIBLE ASSETS, NET

a) Breakdown, changes and amortization rates

| | Indefinite useful life | | Customer portfolio | Company Finite useful life | | Other intangible assets |
|--|------------------------|------------------|--------------------|----------------------------|-------------------|-------------------------|
| | Goodwill | Software | | Trademarks | Licenses | |
| <u>Annual amortization rate (%)</u> | - | 20.00 | 11.76 | 5.13 | 3.60 to 6.67 | 20.00 |
| <u>Balances and changes:</u> | | | | | | |
| Balance at 12/31/15 | 10,013,222 | 2,162,935 | 861,310 | 1,242,025 | 15,635,082 | 6,495 |
| Additions | - | 382,878 | - | - | 185,450 | 11,213 |
| Write-offs, net | - | (4,555) | - | - | - | - |
| Net transfers | - | 469,583 | - | - | - | (17,110) |
| Amortization (Note 23) | - | (672,441) | (358,782) | (82,820) | (690,473) | (4,367) |
| Merger (Note 1d) | 12,837,141 | 219,856 | 2,207,012 | 22,944 | - | 56,368 |
| Balance at 09/30/16 | 22,850,363 | 2,558,256 | 2,709,540 | 1,182,149 | 15,130,059 | 52,599 |
| Additions | - | 232,584 | - | - | - | 602 |
| Write-offs, net | - | 4,552 | - | - | - | - |
| | - | | | | | |

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| | | | | | | |
|----------------------------|-------------------|------------------|------------------|------------------|-------------------|---------------|
| Net transfers | | 147,649 | - | - | - | (583) |
| Amortization | - | (249,834) | (148,320) | (24,329) | (232,091) | (1,920) |
| Balance at 12/31/16 | 22,850,363 | 2,693,207 | 2,561,220 | 1,157,820 | 14,897,968 | 50,698 |
| Additions | - | 186,591 | - | - | - | 179 |
| Write-offs, net | - | (7,428) | - | - | - | - |
| Net transfers | - | 454,824 | - | - | - | (24,265) |
| Amortization (Note 23) | - | (709,686) | (444,960) | (63,154) | (696,272) | (4,364) |
| Balance at 09/30/17 | 22,850,363 | 2,617,508 | 2,116,260 | 1,094,666 | 14,201,696 | 22,248 |
| At 12/31/16 | | | | | | |
| Cost | 22,850,363 | 14,019,938 | 4,513,278 | 1,658,897 | 20,237,572 | 267,065 |
| Accumulated amortization | - | (11,326,731) | (1,952,058) | (501,077) | (5,339,604) | (216,367) |
| Total | 22,850,363 | 2,693,207 | 2,561,220 | 1,157,820 | 14,897,968 | 50,698 |
| At 09/30/17 | | | | | | |
| Cost | 22,850,363 | 14,646,019 | 4,513,278 | 1,658,897 | 20,237,572 | 238,197 |
| Accumulated amortization | - | (12,028,511) | (2,397,018) | (564,231) | (6,035,876) | (215,949) |
| Total | 22,850,363 | 2,617,508 | 2,116,260 | 1,094,666 | 14,201,696 | 22,248 |

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| | Indefinite useful life | | Consolidated Finite useful life | | | Other intangible assets |
|---|------------------------|------------------|------------------------------------|------------------|-------------------|-------------------------------|
| | Goodwill | Software | Customer portfolio | Trademarks | Licenses | |
| Annual amortization rate (%) | - | 6.67 to 50.00 | 11.76 to 12.85 | 5.13 to 66.67 | 3.60 to 6.67 | 20.00 |
| Balances and changes: | | | | | | |
| Balance at 12/31/15 | 23,062,421 | 2,385,723 | 3,154,501 | 1,274,803 | 15,635,082 | 18,190 |
| Additions | - | 401,821 | - | - | 185,450 | 19,194 |
| Write-offs, net | - | (4,558) | - | - | - | (15) |
| Net transfers | - | 468,721 | - | - | - | 19,791 |
| Amortization (Note 23) | - | (691,984) | (444,961) | (92,654) | (690,473) | (4,558) |
| Balance at 09/30/16 | 23,062,421 | 2,559,723 | 2,709,540 | 1,182,149 | 15,130,059 | 52,602 |
| Additions | - | 232,707 | - | - | - | 602 |
| Write-offs, net | - | 4,582 | - | - | - | 4 |
| Net transfers | - | 147,615 | - | - | - | (584) |
| Amortization | - | (250,106) | (148,320) | (24,329) | (232,091) | (1,922) |
| Balance at 12/31/16 | 23,062,421 | 2,694,521 | 2,561,220 | 1,157,820 | 14,897,968 | 50,702 |
| Additions | - | 187,368 | - | - | - | 179 |
| Write-offs, net | - | (7,428) | - | - | - | - |
| Net transfers | - | 454,824 | - | - | - | (24,265) |

| | | | | | | |
|--------------------------------------|-------------------|------------------|------------------|------------------|-------------------|---------------|
| Amortization (Note 23) | - | (710,256) | (444,960) | (63,154) | (696,272) | (4,367) |
| Business combination (Note 1e) | - | 530 | - | - | - | - |
| Balance at 09/30/17 | 23,062,421 | 2,619,559 | 2,116,260 | 1,094,666 | 14,201,696 | 22,249 |
| At 12/31/16 | | | | | | |
| Cost | 23,062,421 | 14,062,127 | 4,513,278 | 1,658,897 | 20,237,572 | 267,074 |
| Accumulated amortization | - | (11,367,606) | (1,952,058) | (501,077) | (5,339,604) | (216,372) |
| Total | 23,062,421 | 2,694,521 | 2,561,220 | 1,157,820 | 14,897,968 | 50,702 |
| At 09/30/17 | | | | | | |
| Cost | 23,062,421 | 14,789,955 | 4,513,278 | 1,658,897 | 20,237,572 | 238,204 |
| Accumulated amortization | - | (12,170,396) | (2,397,018) | (564,231) | (6,035,876) | (215,955) |
| Total | 23,062,421 | 2,619,559 | 2,116,260 | 1,094,666 | 14,201,696 | 22,249 |

b) Goodwill breakdown

| | At 09/30/17 and 12/31/16 | |
|--|--------------------------|-------------------|
| | Company | Consolidated |
| Ajato Telecomunicação Ltda. | 149 | 149 |
| Spanish e Figueira (merged with TDBH) (1) | - | 212,058 |
| Santo Genovese Participações Ltda. (2) | 71,892 | 71,892 |
| Telefônica Televisão Participações S.A. (3) | 780,693 | 780,693 |
| Vivo Participações S. A. (4) | 9,160,488 | 9,160,488 |
| GVT Participações S. A. (5) | 12,837,141 | 12,837,141 |
| Total | 22,850,363 | 23,062,421 |

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

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

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

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

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

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13) PERSONNEL, SOCIAL CHARGES AND BENEFITS

| | Company | | Consolidated | |
|--|----------------|----------------|----------------|----------------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Salaries and wages | 31,241 | 54,525 | 42,796 | 55,476 |
| Social charges and benefits | 520,480 | 375,249 | 546,824 | 384,073 |
| Profit sharing | 200,181 | 282,134 | 206,800 | 285,887 |
| Share-based payment plans (Note 28) | 49,138 | 45,906 | 49,915 | 46,223 |
| Total | 801,040 | 757,814 | 846,335 | 771,659 |
| Current | 780,589 | 746,798 | 825,290 | 760,643 |
| Non-current | 20,451 | 11,016 | 21,045 | 11,016 |

14) TRADE ACCOUNTS PAYABLE

| | Company | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Sundry suppliers (Opex, Capex, Services and Material) | 6,116,596 | 6,270,535 | 6,454,281 | 6,617,240 |
| Amounts payable (operators, cobilling) | 281,052 | 314,959 | 281,052 | 314,958 |
| Interconnection / interlink (1) | 218,047 | 369,715 | 218,047 | 369,715 |
| Related parties (Note 27) | 1,007,165 | 656,093 | 337,233 | 381,240 |
| Total | 7,622,860 | 7,611,302 | 7,290,613 | 7,683,153 |
| Current | 7,622,860 | 7,539,395 | 7,290,613 | 7,611,246 |
| Non-current | - | 71,907 | - | 71,907 |

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

15) TAXES, CHARGES AND CONTRIBUTIONS

| | Company | | Consolidated | |
|--|------------------|------------------|------------------|------------------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Income and social contribution taxes payable | - | - | 89,930 | 11,520 |
| ICMS | 1,223,299 | 1,187,244 | 1,271,995 | 1,226,172 |
| PIS and COFINS | 313,053 | 371,838 | 382,619 | 412,149 |
| Fust and Funttel | 93,323 | 92,828 | 93,323 | 92,828 |
| ISS, CIDE and other taxes | 67,172 | 67,420 | 76,824 | 77,193 |
| Total | 1,696,847 | 1,719,330 | 1,914,691 | 1,819,862 |
| Current | 1,677,801 | 1,698,334 | 1,866,994 | 1,770,731 |
| Non-current | 19,046 | 20,996 | 47,697 | 49,131 |

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16) DIVIDENDS AND INTEREST ON EQUITY (IOE)

a) Dividends and interest on equity receivable

In August 2017, the Company received the amount of R\$384,588 from TData, referring to additional dividends for the year 2016, approved at a TData's Ordinary General Meeting held on April 17, 2017.

b) Dividends and interest on equity payable

b.1) Breakdown:

| | Company/Consolidated | |
|--|----------------------|------------------|
| | 09/30/17 | 12/31/16 |
| Telefónica Latinoamérica Holding S.L. | 792,306 | 454,583 |
| Telefónica S.A. | 954,061 | 547,390 |
| SP Telecomunicações Participações Ltda | 601,467 | 345,090 |
| Telefónica Chile S.A. | 1,677 | 962 |
| Non-controlling interest | 1,175,944 | 847,006 |
| Total | 3,525,455 | 2,195,031 |

b.2) Changes:

Company/ Consolidated

| | |
|--|------------------|
| Balance at 12/31/16 | 2,195,031 |
| Supplementary dividends for 2016 | 1,913,987 |
| Interim interest on equity (net of IRRF) | 790,500 |
| Unclaimed dividends and interest on equity | (72,840) |
| Payment of dividends and interest on equity | (1,304,161) |
| IRRF on shareholders exempt/immune from interest on equity | 2,938 |
| Balance at 09/30/17 | 3,525,455 |

On May 9, 2017, the Company informed the shareholders that it will pay interest on equity and dividends related to the fiscal year of 2016, as follows:

| Nature | Approval | Dates | Credit | Beginning of Payment | Gross Amount | | | Net Value | | |
|--------------|----------|----------|----------|----------------------|------------------|------------------|------------------|------------------|------------------|-------|
| | | | | | Common | Preferred (2) | Total | Common | Preferred (2) | Total |
| IOE | 02/19/16 | 02/29/16 | 08/22/17 | 63,239 | 136,761 | 200,000 | 53,753 | 116,247 | 170,000 | 0.0 |
| IOE | 03/18/16 | 03/31/16 | 08/22/17 | 106,559 | 230,441 | 337,000 | 90,575 | 195,875 | 286,450 | 0.1 |
| IOE | 04/18/16 | 04/29/16 | 08/22/17 | 69,563 | 150,437 | 220,000 | 59,129 | 127,871 | 187,000 | 0.1 |
| IOE | 06/17/16 | 06/30/16 | 08/22/17 | 50,908 | 110,092 | 161,000 | 43,272 | 93,578 | 136,850 | 0.0 |
| IOE | 09/19/16 | 09/30/16 | 08/22/17 | 205,528 | 444,472 | 650,000 | 174,699 | 377,801 | 552,500 | 0.3 |
| IOE | 12/19/16 | 12/30/16 | 12/13/17 | 191,029 | 413,116 | 604,145 | 162,375 | 351,149 | 513,523 | 0.2 |
| Dividends | 04/26/17 | 04/26/17 | 12/13/17 | 605,198 | 1,308,789 | 1,913,987 | 514,418 | 1,112,471 | 1,626,889 | 1.0 |
| Total | | | | 1,292,024 | 2,794,108 | 4,086,132 | 1,098,220 | 2,374,992 | 3,473,212 | |

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

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

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

Interest on equity and dividends not claimed by shareholders expire within three years from the initial payment date. Should dividends and interest on equity expire, these amounts are recorded in retained earnings for later distribution (Note 21 d.3).

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17) 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:

| | Company | | | | | Provision for decommissioning (2) | Total |
|-------------------------------------|------------------------------|------------------|------------------|----------------|----------------------------------|-----------------------------------|------------------|
| | Provisions for contingencies | | | | | | |
| | Labor | Tax | Civil | Regulatory | Contingent liabilities (PPA) (1) | | |
| Balances at 12/31/15 | 1,140,492 | 2,684,924 | 965,730 | 595,028 | 286,983 | 298,751 | 5,971,908 |
| Inflows (income) | 381,911 | 120,385 | 518,293 | 91,124 | 7,835 | - | 1,119,548 |
| Write-offs due to reversal (income) | (64,178) | (41,428) | (279,742) | (7,016) | (13,733) | (1,766) | (407,863) |
| Inflows (reversal), except income | - | 100,314 | 7,360 | - | - | 30,983 | 138,657 |
| Write-offs due to payment | (289,855) | (135,888) | (377,020) | (1,980) | - | - | (804,743) |
| Monetary restatement | 115,190 | 231,246 | 184,331 | 53,798 | 42,068 | 15,940 | 642,573 |
| Merger (note 1d) | 35,236 | 14,597 | 46,284 | 51,701 | 555,486 | 89,541 | 792,845 |
| Balances at 09/30/16 | 1,318,796 | 2,974,150 | 1,065,236 | 782,655 | 878,639 | 433,449 | 7,452,925 |
| Inflows (income) | 206,193 | 6,053 | 156,440 | 32,408 | (7,835) | - | 393,259 |
| Write-offs due to reversal | (83,895) | (10,413) | (61,548) | (3,535) | 5,684 | (18,785) | (172,492) |

| | | | | | | | |
|--------------------|------------------|------------------|------------------|----------------|----------------|----------------|------------------|
| (income) | | | | | | | |
| Inflows | | | | | | | |
| (reversal), | | | | | | | |
| except income | - | - | 466 | - | - | 131,645 | 132,111 |
| Write-offs due | | | | | | | |
| to payment | (104,618) | (10,740) | (149,833) | (581) | (11,240) | - | (277,012) |
| Monetary | | | | | | | |
| restatement | 38,094 | 150,756 | 27,469 | 17,987 | 16,497 | (4,478) | 246,325 |
| Balances at | | | | | | | |
| 12/31/16 | 1,374,570 | 3,109,806 | 1,038,230 | 828,934 | 881,745 | 541,831 | 7,775,116 |
| Inflows | | | | | | | |
| (income) | 669,768 | 203,823 | 577,066 | 73,140 | - | - | 1,523,797 |
| Write-offs due | | | | | | | |
| to reversal | | | | | | | |
| (income) | (460,486) | (59,047) | (223,503) | (52,924) | (87,454) | - | (883,414) |
| Inflows | | | | | | | |
| (reversal), | | | | | | | |
| except income | - | 100,252 | (1,129) | - | - | 14,912 | 114,035 |
| Write-offs due | | | | | | | |
| to payment | (664,263) | (146,094) | (418,812) | (4,556) | - | - | (1,233,725) |
| Write-offs for | | | | | | | |
| compensation | | | | | | | |
| of taxes (3) | - | (66,027) | - | - | - | - | (66,027) |
| Monetary | | | | | | | |
| restatement | 116,148 | 307,422 | 94,765 | 78,838 | 45,347 | 11,331 | 653,851 |
| Balances at | | | | | | | |
| 09/30/17 | 1,035,737 | 3,450,135 | 1,066,617 | 923,432 | 839,638 | 568,074 | 7,883,633 |
| At 12/31/16 | | | | | | | |
| Current | 202,113 | - | 205,831 | 775,679 | - | - | 1,183,623 |
| Non-current | 1,172,457 | 3,109,806 | 832,399 | 53,255 | 881,745 | 541,831 | 6,591,493 |
| At 09/30/17 | | | | | | | |
| Current | 226,092 | - | 212,546 | 850,019 | - | - | 1,288,657 |
| Non-current | 809,645 | 3,450,135 | 854,071 | 73,413 | 839,638 | 568,074 | 6,594,976 |

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

| | Consolidated | | | | | Contingent liabilities (PPA) (1) | Provision for decommissioning (2) | Total |
|-------------------------------------|------------------------------|------------------|------------------|----------------|----------------|----------------------------------|-----------------------------------|-------|
| | Provisions for contingencies | | | | | | | |
| | Labor | Tax | Civil | Regulatory | | | | |
| Balances at 12/31/15 | 1,166,151 | 2,736,191 | 1,010,356 | 642,695 | 843,882 | 405,421 | 6,804,696 | |
| Inflows (income) | 404,150 | 120,392 | 534,030 | 94,107 | 13,163 | - | 1,165,842 | |
| Write-offs due to reversal (income) | (69,565) | (43,203) | (281,468) | (7,016) | (20,101) | (14,140) | (435,493) | |
| Inflows (reversal), except income | - | 100,314 | 7,360 | - | - | 30,983 | 138,657 | |
| Write-offs due to payment | (290,255) | (148,299) | (388,416) | (1,988) | - | - | (828,958) | |
| Monetary restatement | 117,020 | 228,498 | 184,472 | 54,858 | 41,695 | 15,939 | 642,482 | |
| Balances at 09/30/16 | 1,327,501 | 2,993,893 | 1,066,334 | 782,656 | 878,639 | 438,203 | 7,487,226 | |
| Inflows (income) | 207,626 | 6,054 | 156,440 | 32,407 | (13,163) | - | 389,364 | |
| Write-offs due to reversal (income) | (84,193) | (10,413) | (61,548) | (3,536) | 11,013 | (18,784) | (167,461) | |
| Inflows (reversal), except income | 958 | - | 537 | - | - | 131,645 | 133,140 | |
| Write-offs due to payment | (106,639) | (10,740) | (149,893) | (592) | (11,240) | - | (279,104) | |
| Monetary restatement | 37,704 | 150,887 | 27,487 | 17,999 | 16,496 | (4,477) | 246,096 | |
| Balances at 12/31/16 | 1,382,957 | 3,129,681 | 1,039,357 | 828,934 | 881,745 | 546,587 | 7,809,261 | |
| Inflows (income) | 674,134 | 214,095 | 580,368 | 73,140 | - | - | 1,541,737 | |
| Write-offs due to reversal (income) | (463,896) | (61,327) | (225,482) | (52,924) | (87,454) | - | (891,083) | |
| | | | | | | 14,912 | | |

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| | | | | | | | |
|--|------------------|------------------|------------------|----------------|----------------|----------------|------------------|
| Inflows (reversal), except income | (116) | 100,252 | (1,129) | - | - | | 113,919 |
| Write-offs due to payment | (666,264) | (155,750) | (419,566) | (4,556) | - | - | (1,246,136) |
| Write-offs for compensation of taxes (3) | - | (66,027) | - | - | - | - | (66,027) |
| Monetary restatement | 117,040 | 311,947 | 95,073 | 78,838 | 45,347 | 11,331 | 659,576 |
| Business combination (Note 1e) | 19,282 | 87,531 | 6,061 | - | - | - | 112,874 |
| Balances at 09/30/17 | 1,063,137 | 3,560,402 | 1,074,682 | 923,432 | 839,638 | 572,830 | 8,034,121 |
| At 12/31/16 | | | | | | | |
| Current | 202,113 | - | 205,831 | 775,679 | - | - | 1,183,623 |
| Non-current | 1,180,844 | 3,129,681 | 833,526 | 53,255 | 881,745 | 546,587 | 6,625,638 |
| At 09/30/17 | | | | | | | |
| Current | 226,092 | - | 212,546 | 850,019 | - | - | 1,288,657 |
| Non-current | 837,045 | 3,560,402 | 862,136 | 73,413 | 839,638 | 572,830 | 6,745,464 |

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(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 (Note 1c).

(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 / Level of Risk</u> | Amounts involved | | | |
|-------------------------------|---------------------|-----------|--------------------------|-----------|
| | Company 09/30/17 | 12/31/16 | Consolidated 09/30/17 | 12/31/16 |
| Provisions - probable losses | 1,035,737 | 1,374,570 | 1,063,137 | 1,382,957 |
| Possible losses | 222,590 | 275,483 | 276,531 | 293,146 |

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

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

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

b) Provisions and tax contingencies

| <u>Nature / Level of Risk</u> | Amounts involved | | | |
|----------------------------------|---------------------|------------|--------------------------|------------|
| | Company 09/30/17 | 12/31/16 | Consolidated 09/30/17 | 12/31/16 |
| Provisions - probable losses | 3,450,135 | 3,109,806 | 3,560,402 | 3,129,681 |
| Federal | 416,990 | 343,353 | 504,981 | 343,353 |
| State | 246,236 | 226,571 | 246,824 | 226,571 |
| Municipal | 31,623 | 30,519 | 31,623 | 30,519 |
| FUST, FISTEL and EBC | 2,755,286 | 2,509,363 | 2,776,974 | 2,529,238 |
| Possible losses | 30,466,240 | 29,539,669 | 31,826,351 | 30,050,578 |
| Federal | 6,266,429 | 5,917,148 | 6,570,187 | 5,931,022 |
| State | 16,196,302 | 14,999,333 | 17,135,554 | 15,389,802 |
| Municipal | 544,270 | 852,926 | 550,170 | 853,244 |
| FUST, FUNTTEL, FISTEL and EBC | 7,459,239 | 7,770,262 | 7,570,440 | 7,876,510 |

b.1) Probable tax contingencies

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

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

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

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; (v) additional charges to the PIS and COFINS tax base, as well as additional charges to COFINS required by Law No. 9,718/98; and (vi) exclusion of the ISS from the PIS and COFINS calculation base on imports.

At September 30, 2017, consolidated provisions totaled R\$504,981 (R\$343,353 at December 31, 2016).

State taxes

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

At September 30, 2017, consolidated provisions totaled R\$246,824 (R\$226,571 at December 31, 2016).

Municipal taxes

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

At September 30, 2017, consolidated provisions totaled R\$31,623 (R\$30,519 at December 31, 2016).

FUST, FISTEL and EBC

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

At September 30, 2017, consolidated provisions totaled R\$2,776,974 (R\$2,529,238 at December 31, 2016).

b.2) Possible tax contingencies

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

Federal taxes

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

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

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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/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 September 30, 2017, consolidated amounts involved totaled R\$6,570,187 (R\$5,931,022 at December 31, 2016).

State taxes

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

Among these lawsuits, the following are highlighted: (i) provision of facility, utility and convenience services and rental of movable property; (ii) international calls (DDI); (iii) reversal of ICMS credit related to the acquisition of items of property, plant and equipment and payment of ICMS in interstate transfers of property, plant and equipment between branches; (iv) reversal of previously unused ICMS credits; (v) service provided outside São Paulo state with ICMS paid to São Paulo State; (vi) co-billing; (vii) tax substitution with a fictitious tax base (tax guideline); (viii) use of credits related to acquisition of electric power; (ix) secondary activities, value added and supplementary services; (x) tax credits related to opposition/challenges regarding telecommunications services not provided or mistakenly charged

(Agreement 39/01); (xi) shipment of goods with prices lower than acquisition prices (unconditional discounts); (xii) deferred collection of ICMS - interconnection (DETRAF - Traffic and Service Provision Document); (xiii) credits derived from tax benefits granted by other states; (xiv) disallowance of tax incentives related to cultural projects; (xv) transfers of assets among business units owned by the Company; (xvi) communications service tax credits used in provision of services of the same nature; (xvii) card donation for prepaid service activation; (xviii) reversal of credit from return and free lease in connection with assignment of networks (used by the Company itself and exemption of public bodies); (xix) DETRAF fine; (xx) ICMS on own consumption; (xxi) ICMS on exemption of public bodies; (xxii) ICMS on amounts given by way of discounts; (xxiii) new tax register bookkeeping without prior authorization by tax authorities; (xxiv) ICMS on monthly subscription; (xxv) tax on unmeasured services; and (xxvi) ICMS on advertising services.

At September 30, 2017, consolidated amounts involved totaled R\$17,135,554 (R\$15,389,802 at December 31, 2016).

Municipal taxes

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

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

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

At September 30, 2017, consolidated amounts involved totaled R\$550,170 (R\$853,244 at December 31, 2016).

FUST, FUNTTEL, FISTEL and EBC

Universal Telecommunications Services Fund ("FUST")

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

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

At September 30, 2017, consolidated amounts involved totaled R\$4,274,654 (R\$4,089,065 at December 31, 2016).

Fund for Technological Development of Telecommunications ("FUNTTEL")

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

Several notifications of debits drawn up by the Ministry of Communications in administrative actions for constitution of the tax credit related to the interconnection, network resources and other revenues that do

not originate from the provision of telecommunication services.

At September 30, 2017, consolidated amounts involved totaled R\$488,603 (R\$1,190,637 at December 31, 2016).

Telecommunications Inspection Fund ("FISTEL")

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

At September 30, 2017, consolidated amounts involved totaled R\$2,529,372 (R\$2,352,000 at December 31, 2016).

Contribution to Empresa Brasil de Comunicação (EBC)

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

At September 30, 2017, consolidated amounts involved totaled R\$277,811 (R\$244,808 at December 31, 2016).

c) Provisions and civil contingencies

| <u>Nature / Level of Risk</u> | Company | Amounts involved | | Consolidated | |
|-------------------------------|-----------|------------------|-----------|--------------|--|
| | | 09/30/17 | 12/31/16 | | |
| Provisions - probable losses | 1,066,617 | 1,038,230 | 1,074,682 | 1,039,357 | |

| | | | | |
|-----------------|-----------|-----------|-----------|-----------|
| Possible losses | 2,795,691 | 2,573,459 | 2,815,000 | 2,574,836 |
|-----------------|-----------|-----------|-----------|-----------|

c.1) Provisions for probable civil losses

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

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- The Company and/or its subsidiaries are parties to proceedings involving rights to the supplementary amounts from shares calculated on network expansion plans since 1996 (supplement of share proceedings). These proceedings are at different stages: lower courts, court of justice and high court of justice. At September 30, 2017, consolidated provisions totaled R\$319,952 (R\$256,276 at December 31, 2016).
- The Company and/or its subsidiaries are parties to various civil proceedings related to consumers at the administrative and judicial level, relating to the non-provision of services and/or products sold. At September 30, 2017, consolidated provisions totaled R\$328,155 (R\$386,699 at December 31, 2016).
- The Company and/or its subsidiaries are parties to various civil proceedings of a non-consumer nature at administrative and judicial levels, all arising in the ordinary course of business. At September 30, 2017, consolidated provisions totaled R\$426,575 (R\$396,382 at December 31, 2016).

c.2) Civil contingencies assessed as possible losses

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

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

PBS private pension plan, alleging, in short, the "windup of the supplementary private pension plan of the SISTEL Foundation", which led to various specific mirror PBS plans, and corresponding allocation of funds from technical surplus and tax contingencies existing at the time of the spin-off. The amount cannot be estimated, and the claims cannot be settled due to their unenforceability because this involves the return of the spun-off assets of SISTEL relating to telecommunication carriers of the former Telebrás System.

- The Company is party to other civil claims, at several levels, related to service rendering rights. Such claims have been filed by individual consumers, civil associations representing consumer rights or by the Bureau of Consumer Protection (PROCON), as well as by the Federal and State Public Prosecutor's Office. The Company is also party to other claims of several types related to the ordinary course of business. At September 30, 2017, the consolidated amount totaled R\$2,781,941 (R\$2,559,252 at December 31, 2016).
 - TGLog (company controlled by TData) is a party to the civil enforcement action process in the 3rd Civil Court of Barueri - SP for the allegation of contractual noncompliance with the transportation of goods. At September 30, 2017, the amount was R\$172 (R\$1,377 at December 31, 2016).
 - Terra Networks (company controlled by TData) is a party to: (i) supplier action related to the transmission of events; (ii) PROCON fine (annulment action); (iii) indemnification action related to the use of content; (iv) ECAD action on copyright collection; and (v) claim actions filed by former subscribers regarding unrecognized collection, collection of undue value and contractual noncompliance. At September 30, 2017, the amount was R\$18,680.
 - The Company has received notices regarding noncompliance with the Customer Service (SAC) Decree. The Company is currently party to various lawsuits (administrative and legal proceedings). At September 30, 2017 and at December 31, 2016, the amount was R\$14,207.
-

Telefônica Brasil S. A.

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

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

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

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

d) Provisions and regulatory contingencies

| <u>Nature / Level of Risk</u> | Amounts involved | | | |
|-------------------------------|---------------------|----------|--------------------------|----------|
| | Company 09/30/17 | 12/31/16 | Consolidated 09/30/17 | 12/31/16 |
| Provisions - probable losses | 923,432 | 828,934 | 923,432 | 828,934 |
| Possible losses | | | | |

5,168,733

5,018,205

5,168,733

5,018,205

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

The Company is party to administrative proceedings against ANATEL, filed based on an alleged failure to meet sector regulations, and to judicial proceedings to contest sanctions applied by ANATEL at the administrative level. At September 30, 2017, consolidated provisions totaled R\$923,432 (R\$828,934 at December 31, 2016).

d.2) Regulatory contingencies assessed as possible losses

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

- The Company is party to administrative proceedings filed by ANATEL alleging noncompliance with the obligations set forth in industry regulations, as well as legal claims which discuss the sanctions applied by ANATEL at the administrative level. At September 30, 2017, the consolidated amount was R\$5,168,733 (R\$5,018,205 at December 31, 2016).
- 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.

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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 determination of fulfillment of conditions for the continuation of the analysis of the instrument.

e) Guarantees

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

| | Consolidated | | | | | |
|-------------------------|------------------------------|--|-------------------------|------------------------------|--|-------------------------|
| | 09/30/17 | | | 12/31/16 | | |
| | Property and equipment | Judicial deposits and garnishments | Letters of guarantee | Property and equipment | Judicial deposits and garnishments | Letters of guarantee |
| Civil, labor and tax | 174,803 | 6,640,407 | 1,754,950 | 203,600 | 6,351,566 | 1,948,088 |
| Total | 174,803 | 6,640,407 | 1,754,950 | 203,600 | 6,351,566 | 1,948,088 |

At September 30, 2017, in addition to the guarantees presented above, the Company and its subsidiaries had amounts under short-term investment frozen by courts (except for loan-related investments) in the consolidated amount of R\$73,664 (R\$67,393 at December 31, 2016).

18) DEFERRED REVENUE

| | Company | | Consolidated | |
|------------------------------|----------------|----------------|----------------|----------------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Services (1) | 321,862 | 389,706 | 321,862 | 389,706 |
| Disposal of PP&E (2) | 219,136 | 227,397 | 219,136 | 227,397 |
| Activation revenue (3) | 9,733 | 44,117 | 10,215 | 44,914 |
| Customer loyalty program (4) | 67,533 | 56,210 | 67,533 | 56,210 |
| Government grants (5) | 119,144 | 133,300 | 119,144 | 133,300 |
| Donations of equipment (6) | 8,343 | 8,044 | 8,343 | 8,044 |
| Other revenues (7) | 76,576 | 81,500 | 76,576 | 82,068 |
| Total | 822,327 | 940,274 | 822,809 | 941,639 |
| Current | 414,555 | 428,488 | 415,037 | 429,853 |
| Non-current | 407,772 | 511,786 | 407,772 | 511,786 |

(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.

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

(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) This refers to the balances of network equipment donated by suppliers, which are amortized over their useful life cycles

(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).

19) LOANS, FINANCING AND DEBENTURES

a) Breakdown

On September 30, 2017, the contractual terms of the loans and financing are the same as in Note 21) Loans, Financing and Debentures, as disclosed in the financial statements for the year ended December 31, 2016, except for funding obtained in the nine-month period ended September 30, 2017, described in item a.1).

| Information as of September 30, 2017 | | Company / Consolidated 09/30/17 | | Total | 12/31/ | |
|--------------------------------------|---------------------|------------------------------------|-------------|-------|---------|-------------|
| Currency | Maturity Guarantees | Current | Non-current | | Current | Non-current |

Annual
interest
rate**Local
currency****1,267,651 2,427,199 3,694,850 1,480,382 2,901****Financial
Institutions
(a.1)****787,863 1,638,716 2,426,579 711,848 2,158**

BNDES

FINEM -
ContractTJLP+ 0
to

11.2.0814.1

URTJLP

4,08%

7/15/2019

(1)

372,458

305,185

677,643

363,734

567

BNDES

FINEM -
ContractTJLP+
to

08.2.1073.1

URTJLP

2,95%

6/15/2017

(3)

-

-

-

29,319

BNDES

FINEM -
ContractTJLP+ 0
to

11.2.0963.1

URTJLP

3,38%

8/15/2020

(3)

183,613

348,256

531,869

182,737

480

BNDES

FINEM -
Contract

11.2.0963.1

R\$

5.00%

11/15/2019

(3)

14,658

17,026

31,684

14,686

27

BNDES

FINEM -
ContractTJLP+ 0
to

14.2.1192.1

URTJLP

3,12%

1/15/2023

(3)

76,045

436,482

512,527

7,596

499

BNDES

FINEM -
Contract4,00%
to

14.2.1192.1

R\$

6,00%

1/15/2023

(3)

31,001

130,329

161,330

12,320

163

BNDES

FINEM -
ContractSelic
Acum.
D-2 +

14.2.1192.1

R\$

2,32%

1/15/2023

(3)

50,863

319,037

369,900

1,408

340

BNDES PSI

R\$

5,5%

1/15/2023

(2)

44,140

23,951

68,091

92,508

44

BNB

R\$

7,06%
to 10%

8/18/2022

(4)

15,085

58,450

73,535

7,540

34

**109,1%
to****117,1%****Suppliers (a.2)****R\$****of CDI****4/30/2018**

439,683

-

439,683

722,591

**Finance lease
(a.3)****R\$****IPCA
and
IGP-M****8/31/2033**

40,105

348,087

388,192

45,943

328

**Contingent
Consideration
(a.4)**

| | | | | | | |
|------------|--------------|---|---------|----------------|---|-----|
| R\$ | Selic | - | 440,396 | 440,396 | - | 414 |
|------------|--------------|---|---------|----------------|---|-----|

**Foreign
Currency**

| | | | | |
|----------------|----------------|----------------|------------------|------------|
| 725,757 | 113,925 | 839,682 | 1,062,593 | 225 |
|----------------|----------------|----------------|------------------|------------|

**Financial
Institutions
(a.1)**

| | | | | |
|----------------|----------------|----------------|------------------|------------|
| 725,757 | 113,925 | 839,682 | 1,062,593 | 225 |
|----------------|----------------|----------------|------------------|------------|

BNDES

FINEM -

Contract

| | | | | | | | | | |
|-------------|-------|----------------|-----------|-----|---------|---------|---------|---------|-----|
| 11.2.0814.1 | UMBND | ECM + 2,38% | 7/15/2019 | (1) | 136,386 | 113,925 | 250,311 | 136,850 | 225 |
|-------------|-------|----------------|-----------|-----|---------|---------|---------|---------|-----|

Resolution

4131 -

Scotiabank and

Bank of

America

| | | | | | | | |
|------|-------|---------|------------|---------|---|---------|---------|
| US\$ | 2,00% | Libor + | 12/18/2017 | 589,371 | - | 589,371 | 925,743 |
|------|-------|---------|------------|---------|---|---------|---------|

Total

| | | | | |
|------------------|------------------|------------------|------------------|--------------|
| 1,993,408 | 2,541,124 | 4,534,532 | 2,542,975 | 3,126 |
|------------------|------------------|------------------|------------------|--------------|

Garantees

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

(2) Pledge of financed assets.

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

(4) Bank guarantee provided by Banco Safra in an amount equivalent to 100% of the outstanding financing debt balance. Setting up a liquidity fund represented by financial investments in the amount equivalent to three installments of repayment referenced to the average post-grace period performance. Balances were R\$11,631 and R\$10,773 at September 30, 2017 and December 31, 2016, respectively.

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

a.1) Financial Insituitions

Banco do Nordeste ("BNB")

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

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 109.1% and 117.1% of CDI (108.4% of CDI as of December 31, 2016).

a.3) Finance leasing

The Company is lessee in contracts classified as financial leasing, related 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. The net carrying amount of the assets has remained unchanged until sale thereof, and a liability is recognized corresponding to the present value of mandatory minimum installments of the agreement.

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

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

| | Company / Consolidated | |
|-------------------------------|------------------------|----------------|
| | 09/30/17 | 12/31/16 |
| Nominal value payable | 792,875 | 831,479 |
| Unrealized financial expenses | (404,683) | (457,051) |
| Present value payable | 388,192 | 374,428 |
| Current | 40,105 | 45,943 |
| Non-current | 348,087 | 328,485 |

Aging of finance lease payables at September 30, 2017 is as follows:

| | Company / Consolidated | |
|-------------------|--------------------------|--------------------------|
| | Nominal value payable | Present value payable |
| Up to 1 year | 46,764 | 40,105 |
| From 1 to 5 years | 199,709 | 145,175 |
| Over five years | 546,402 | 202,912 |
| Total | 792,875 | 388,192 |

There are no unsecured residual values resulting in benefits to the lessor nor in contingent payments recognized as revenue at September 30, 2017 and December 31, 2016.

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

a.4) Contingent Consideration

As part of the Purchase and Sale Agreement and Other Covenants executed by and between the Company and Vivendi to acquire all shares in GVTPart (Note 1c), 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

On September 30, 2017, the contractual terms of the debentures are the same as in Note 21) Loans, Financing and Debentures, as disclosed in the financial statements for the year ended December 31, 2016, except for the new issue described below.

5th Issue

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

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

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

The net proceeds obtained by the Company with this issuance will be fully used for reprofiling the Company's financial liabilities, taking into consideration the Company's ongoing operations.

3th Issue

On September 10, 2017, the debentures contemplated in this indenture were fully settled. The amount paid in settlement amounted to R\$2,110,358, of which R\$2,000,000 corresponded to the principal and R\$110,358 corresponded to interest

The following discloses some information on the debentures in effect on September 30, 2017 and December 31, 2016.

| Issue | Issue date | Maturity | Information as of September 30, 2017 | | | Company / Consolidated | | | 09/30/17 |
|----------------------------|------------|------------|--------------------------------------|-------------|-----------|---------------------------|-------------------|------------------|------------------|
| | | | Issued | Outstanding | Amounts | Issue value | Remuneration p.a. | Current | |
| 4th issue – Series 3 | 10/15/2009 | 10/15/2019 | 810,000 | 23,557 | 810,000 | IPCA+4,00% | 1,461 | 39,644 | 41,105 |
| 1st issue – Minas Comunica | 12/17/2007 | 7/5/2021 | 5,550 | 5,550 | 55,500 | IPCA+0,50% 100% of CDI | 28,296 | 71,439 | 99,735 |
| 3rd issue | 9/10/2012 | 9/10/2017 | 200,000 | 200,000 | 2,000,000 | + 0,75% 100% of CDI | - | - | - |
| 4th issue | 4/25/2013 | 4/25/2018 | 130,000 | 130,000 | 1,300,000 | + 0,68% 108,25% of CDI | 1,358,714 | - | 1,358,714 |
| 5th issue | 2/8/2017 | 2/8/2022 | 200,000 | 200,000 | 2,000,000 | CDI | 26,367 | 1,996,170 | 2,022,537 |
| Total | | | | | | | 1,414,838 | 2,107,253 | 3,522,076 |

Transaction costs in connection with the 4th and 5th issues, totaling R\$4,937 at September 30, 2017 (R\$495 at December 31, 2016), 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 September 30, 2017, breakdown of non-current loans, financing, finance leasing, debentures and contingent consideration by year of maturity is as follows:

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

| <u>Year</u> | Loans and financing | Company / Consolidated | | | Total |
|--------------|------------------------|------------------------|------------------|-----------------------------|------------------|
| | | Debentures | Finance lease | Contingent consideration | |
| 2018 | 235,105 | - | 43,282 | - | 278,387 |
| 2019 | 729,415 | 63,457 | 38,606 | - | 831,478 |
| 2020 | 348,866 | 23,813 | 32,307 | - | 404,986 |
| 2021 | 221,814 | 1,023,813 | 30,980 | - | 1,276,607 |
| 2022 onwards | 217,441 | 996,170 | 202,912 | 440,396 | 1,856,919 |
| Total | 1,752,641 | 2,107,253 | 348,087 | 440,396 | 4,648,377 |

d) Covenants

There are loans and financing with BNDES (Note 19.a) and debentures (Note 19.b) 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 September 30, 2017 and December 31, 2016 all economic and financial ratios established in existing contracts have been achieved.

e) Changes

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

Company

| | Loans and financing - Financial Institutions | Debentures | Finance lease | Financing - Suppliers | Contingent consideration | Total |
|---|---|------------------|------------------|--------------------------|-----------------------------|------------------|
| Balance at 12/31/15 | 3,190,529 | 3,544,714 | 271,530 | 1,113,244 | 377,721 | 8,497,738 |
| Inflows | 289,786 | - | 2,675 | 293,064 | - | 585,525 |
| Government grants (Note 18) | (8,681) | - | - | - | - | (8,681) |
| Financial charges (Note 25) | 319,734 | 369,565 | 52,323 | 31,616 | 27,070 | 800,308 |
| Issue costs | - | 371 | - | - | - | 371 |
| Foreign exchange variation (Note 25) | (281,020) | - | - | - | - | (281,020) |
| Write-offs (payments) | (842,962) | (380,559) | (26,352) | (1,054,910) | - | (2,304,783) |
| Merger (note 1d) | 1,532,666 | - | 22,075 | - | - | 1,554,741 |
| Balance at 09/30/16 | 4,200,052 | 3,534,091 | 322,251 | 383,014 | 404,791 | 8,844,199 |
| Inflows | 176,843 | - | 59,191 | 373,021 | - | 609,055 |
| Government grants (Note 18) | (3,359) | - | - | - | - | (3,359) |
| Financial charges | 65,506 | 116,613 | 9,919 | 18,317 | 9,942 | 220,297 |
| Issue costs | - | 124 | - | - | - | 124 |
| Foreign exchange variation | 8,225 | - | - | - | - | 8,225 |
| Write-offs (payments) | (289,252) | (96,521) | (16,933) | (51,761) | - | (454,467) |
| Balance at 12/31/16 | 4,158,015 | 3,554,307 | 374,428 | 722,591 | 414,733 | 9,224,074 |
| Inflows | 39,878 | 2,000,000 | 9,061 | 280,019 | - | 2,328,958 |
| Financial charges (Note 25) | 241,654 | 418,536 | 41,355 | 48,226 | 25,663 | 775,434 |
| Issue costs | - | (4,443) | - | - | - | (4,443) |

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| | | | | | | |
|--------------------------------------|------------------|------------------|----------------|----------------|----------------|------------------|
| Foreign exchange variation (Note 25) | (20,133) | | - | - | - | (20,133) |
| Write-offs (payments) | (1,153,153) | (2,446,309) | (36,652) | (611,153) | - | (4,247,267) |
| Balance at 09/30/17 | 3,266,261 | 3,522,091 | 388,192 | 439,683 | 440,396 | 8,056,623 |

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

Consolidated

| | Loans and financing - Financial Institutions | Debentures | Finance lease | Financing - Suppliers | Contingent consideration | Total |
|---|---|------------------|------------------|--------------------------|-----------------------------|-------------------|
| Balance at 12.31.15 | 4,773,489 | 3,544,714 | 296,684 | 1,228,682 | 377,721 | 10,221,290 |
| Inflows | 289,786 | - | 2,675 | 293,064 | - | 585,525 |
| Government grants (Note 18) | (8,681) | - | - | - | - | (8,681) |
| Financial charges (Note 25) | 359,361 | 369,565 | 53,084 | 31,721 | 27,070 | 840,801 |
| Issue costs | - | 371 | - | - | - | 371 |
| Foreign exchange variation (Note 25) | (281,020) | - | - | - | - | (281,020) |
| Write-offs (payments) | (932,883) | (380,559) | (30,192) | (1,170,453) | - | (2,514,087) |
| Balance at 09/30/16 | 4,200,052 | 3,534,091 | 322,251 | 383,014 | 404,791 | 8,844,199 |
| Inflows | 176,843 | - | 59,191 | 373,021 | - | 609,055 |
| Government grants (Note 18) | (3,359) | - | - | - | - | (3,359) |
| Financial charges | 65,506 | 116,613 | 9,919 | 18,317 | 9,942 | 220,297 |
| Issue costs | - | 124 | - | - | - | 124 |
| Foreign exchange variation | 8,225 | - | - | - | - | 8,225 |
| Write-offs (payments) | (289,252) | (96,521) | (16,933) | (51,761) | - | (454,467) |
| Balance at 12.31.16 | 4,158,015 | 3,554,307 | 374,428 | 722,591 | 414,733 | 9,224,074 |
| Inflows | | | | | | |

| | | | | | | |
|---|------------------|------------------|----------------|----------------|----------------|------------------|
| | 39,878 | 2,000,000 | 9,061 | 280,019 | - | 2,328,958 |
| Financial charges (Note 25) | 241,654 | 418,536 | 41,355 | 48,226 | 25,663 | 775,434 |
| Issue costs | - | (4,443) | - | - | - | (4,443) |
| Foreign exchange variation (Note 25) | (20,133) | - | - | - | - | (20,133) |
| Write-offs (payments) | (1,153,153) | (2,446,309) | (36,652) | (611,153) | - | (4,247,267) |
| Balance at 09/30/17 | 3,266,261 | 3,522,091 | 388,192 | 439,683 | 440,396 | 8,056,623 |

20) OTHER LIABILITIES

| | Company | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Authorization licenses (1) | 252,287 | 1,048,523 | 252,287 | 1,048,523 |
| Liabilities with related parties (Note 27) | 114,728 | 145,332 | 104,566 | 112,358 |
| Payment for license renewal (2) | 163,365 | 215,154 | 163,365 | 215,154 |
| Third-party withholdings (3) | 160,687 | 222,696 | 167,501 | 227,685 |
| Surplus from post-employment benefit plans (Note 29) | 351,390 | 327,670 | 352,668 | 327,670 |
| Amounts to be refunded to subscribers | 167,478 | 166,644 | 169,076 | 168,708 |
| Other liabilities | 94,540 | 90,815 | 97,135 | 92,447 |
| Total | 1,304,475 | 2,216,834 | 1,306,598 | 2,192,545 |
| Current | 704,282 | 1,641,926 | 710,436 | 1,640,757 |
| Non-current | 600,193 | 574,908 | 596,162 | 551,788 |

(1) Includes a portion of the Company's liability arising from an agreement entered into with ANATEL, whereby the operators that won the auction of the 4G licences organized Entidade Administradora do

Processo de Redistribuição e Digitalização de Canais de TV e RTV ("EAD"), which will be responsible for equally performing all TV and RTV channel redistribution procedures and solutions to harmful interference in radio communication systems, in addition to other operations in which the winning operators have obligations, as defined in the agreement. On January 31, 2017, the Company paid R\$858,991 to EAD, referring to the 2nd and 3rd installments of the auction of 700 MHz national frequency bands for the provision of SMP, performed by ANATEL on September 30, 2014.

(2) This refers to the cost of renewing STFC and SMP licenses. See Note 1.b).

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

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

21) EQUITY

a) Capital

According to its Articles of Incorporation, the Company is authorized to increase its share capital up to 1,850,000,000 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. 6,404/76, 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 limit has been reached.

Capital increases do not necessarily require 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. 6,404/76.

Preferred shares also acquire 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 continue until payment of said dividend.

Paid-in capital at September 30, 2017 and December 31, 2016 amounted to R\$63,571,416. After all the events described above, subscribed and paid-in capital is divided into shares without par value, held as follows:

At 09/30/17

| <u>Shareholders</u> | Common Shares | | Preferred Shares | | Grand Total | |
|--|--------------------|----------------|----------------------|----------------|----------------------|---------------------------------------|
| | Number | % | Number | % | Number | %, including treasury shares |
| <u>Controlling Group</u> | 540,033,264 | 94.47% | 704,207,855 | 62.91% | 1,244,241,119 | 73.58% |
| Telefónica Latinoamérica Holding, S.L. | 46,746,635 | 8.18% | 360,532,578 | 32.21% | 407,279,213 | 24.09% |
| Telefónica S.A. SP | 198,207,608 | 34.67% | 305,122,195 | 27.26% | 503,329,803 | 29.76% |
| Telecomunicações Participações Ltda | 294,158,155 | 51.46% | 38,537,435 | 3.44% | 332,695,590 | 19.67% |
| Telefónica Chile S.A. | 920,866 | 0.16% | 15,647 | 0.00% | 936,513 | 0.06% |
| <u>Non-controlling shareholders</u> | 29,320,789 | 5.13% | 415,131,851 | 37.09% | 444,452,640 | 26.28% |
| Other shareholders | 29,320,789 | 5.13% | 415,131,851 | 37.09% | 444,452,640 | 26.28% |
| Total shares (not including outstanding shares) | 569,354,053 | 99.60% | 1,119,339,706 | 100.00% | 1,688,693,759 | 99.86% |
| <u>Treasury Shares</u> | 2,290,164 | 0.40% | 1,000 | 0.00% | 2,291,164 | 0.14% |
| Total shares | 571,644,217 | 100.00% | 1,119,340,706 | 100.00% | 1,690,984,923 | 100.00% |
| Book value per share (not including outstanding shares) at 09/30/17 (in R\$): | | | | | | R\$ 41.16 |

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

At 12/31/16

| <u>Shareholders</u> | Common Shares | | Preferred Shares | | Grand Total | |
|--|--------------------|----------------|----------------------|----------------|----------------------|---------------------------------------|
| | Number | % | Number | % | Number | %, including treasury shares |
| <u>Controlling Group</u> | 540,033,264 | 94.47% | 704,207,855 | 62.91% | 1,244,241,119 | 73.58% |
| Telefónica | | | | | | |
| Latinoamérica | | | | | | |
| Holding, S.L. | 46,746,635 | 8.18% | 360,532,578 | 32.21% | 407,279,213 | 24.09% |
| Telefónica S.A. | 198,207,608 | 34.67% | 305,122,195 | 27.26% | 503,329,803 | 29.76% |
| SP | | | | | | |
| Telecomunicações | | | | | | |
| Participações Ltda | 294,158,155 | 51.46% | 38,537,435 | 3.44% | 332,695,590 | 19.67% |
| Telefónica Chile | | | | | | |
| S.A. | 920,866 | 0.16% | 15,647 | 0.00% | 936,513 | 0.06% |
| <u>Non-controlling</u> | | | | | | |
| <u>shareholders</u> | 29,320,789 | 5.13% | 415,132,512 | 37.09% | 444,453,301 | 26.28% |
| Other shareholders | 29,320,789 | 5.13% | 415,132,512 | 37.09% | 444,453,301 | 26.28% |
| Total shares (not | | | | | | |
| including | | | | | | |
| outstanding shares) | 569,354,053 | 99.60% | 1,119,340,367 | 100.00% | 1,688,694,420 | 99.86% |
| <u>Treasury Shares</u> | 2,290,164 | 0.40% | 339 | 0.00% | 2,290,503 | 0.14% |
| Total shares | 571,644,217 | 100.00% | 1,119,340,706 | 100.00% | 1,690,984,923 | 100.00% |
| Book value per share (not including | | | | | | R\$ |
| outstanding shares) at 12/31/16 (in R\$): | | | | | | 41.00 |

b) Capital reserves**b.1) Treasury shares**

The Company's shares held in treasury whose balance is resulting: (i) of the exercise of the right to withdraw from the Company's common and preferred shareholders, who expressed their dissent regarding the acquisition of GVTPart (see Note 1.c); (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 21.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 (see note 17.c).

The table below shows the changes for the nine-month period ended September 30, 2017.

| | Common shares | Shares Preferred shares | Total | In thousands of reais |
|---|------------------|-------------------------------|------------------|--------------------------|
| Treasury stock | | | | |
| At 12.31.16 | 2,290,164 | 339 | 2,290,503 | (87,790) |
| Acquisition of shares in the financial market (1) | - | 706 | 706 | (32) |
| Transfer of lawsuits concerning judicial proceedings (2) | - | (45) | (45) | 2 |
| At 09.30.17 | 2,290,164 | 1,000 | 2,291,164 | (87,820) |

1) The Company acquired preferred shares issued by the Company in the financial market, of which: (i) On June 1, 2017, the Company acquired 45 preferred shares issued by the Company in the financial market, at a unit price of R\$47.31, totaling R\$2; and (ii) on July 5, 2017, 661 shares at a unit price of R \$ 45.26, totaling R\$30.

2) On June 8, 2017, the Company transferred the 45 preferred shares acquired on June 1, 2017, in order to comply with the judicial process decisions in which the Company is involved in rights to the complementary receipt of shares calculated in relation to network expansion plans after 1996, occurred in December 2016 (see Note 17.c), at an average price of R\$46.62, totaling R\$2.

b.2) Other capital reserves

The breakdown as of September 30, 2017 and December 31, 2016 is as follows.

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

| | Consolidated | |
|---|------------------|------------------|
| | 09/30/17 | 12/31/16 |
| Excess of the value in the issue or capitalization, in relation to the basic value of the share on the issue date (1) | 2,799,004 | 2,799,004 |
| Cancellation of treasury shares according to the Special Shareholders' Meeting (SGM) of 3/12/15 (2) | (112,107) | (112,107) |
| Direct costs of capital increases (3) | (62,433) | (62,433) |
| Incorporation of shares of GVTPart. (4) | (1,188,707) | (1,188,707) |
| Reclassification premium in the acquisition of equity interest in TData (5) | (75,388) | (75,388) |
| Preferred shares delivered referring to the judicial process of expansion plan (6) | 2 | 2 |
| Effects of the acquisition of Terra Networks Brasil by TData (7) | (59,029) | - |
| Total | 1,301,342 | 1,360,371 |

(1) Includes (i) R\$63,074 in tax benefit arising from the absorption of Telefônica Data do Brasil Ltda., which will be capitalized in favor of the controlling shareholder (SP Telecomunicações Participações Ltda.) once the tax credit has been recognized in accordance with CVM Instruction 319/99; and (ii) R\$2,735,930 related to the excess of the value in the issue or capitalization, in relation to the basic value of the share on the issue date.

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

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

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

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

(6) Refers to the effects of stock prices on acquisition in the financial market and write-offs due to the transfer of 395 preferred shares in treasury to outstanding shares, equivalent to the amount of R\$15, 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, occurred in December 2016 (see note 17.c).

(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 e).

c) Revenue reserves

c.1) Legal reserve

This reserve is constituted by allocation of 5% of the year's net income within a maximum of 20% of paid-up capital. The legal reserve may only be used to increase capital and offset accumulated losses.

The balance of this item was R\$1,907,905 at September 30, 2017 and December 31, 2016.

c.2) Special Reserve for Expansion and Modernization

In accordance with Article 196 of Law 6,404/76, based on the capital budget submitted to and approved by the General Meeting of Shareholders of April 26, 2017, the Company established a special reserve of R\$550,000 for expansion and modernization, which will be used to partially fund capital expenditure for the 2017 financial year.

The balance of this item at September 30, 2017 and December 31, 2016 was R\$550,000.

c.3) Tax Incentives Reserve

In relation to ICMS tax paid in the states of Minas Gerais and Espírito Santo, the Company has tax benefits in the form of credits granted by the applicable bodies for investments it made to install supporting equipment for SMP services, which is fully functioning and operating in accordance with current regulations, thus ensuring that the localities listed in the procurement notice will be included in the SMP coverage area.

These tax benefits was excluded from calculations of dividends and may be used only in cases of capital increase or absorption of losses.

Telefônica Brasil S. A.

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

The balance of this caption at September 30, 2017 and December 31, 2016 was R\$25,126 and R\$17,069, respectively.

d) Dividends and interest on equity

d.1) Additional dividends proposed for 2016

On April 26, 2017, the Company's Ordinary General Meeting approved the allocation of proposed additional dividends for 2016, not yet distributed, amounting of R\$1,913,987, equivalent to R\$1.06295487664 and R\$1.16925036430 for common and preferred shares, respectively, to the holders of common and preferred shares that were registered in the Company's records at the end of the day of the Ordinary General Meeting. The amount will be paid as of December 13, 2017 (Note 16).

The balance of this item was R\$1,913,987 at December 31, 2016.

d.2) Interim payments of interest on equity for 2017

At meetings of the Company's Board of Directors, the directors approved the allocations of interest on shareholders' equity, related to the 2017 fiscal year, pursuant to Article 28 of the Company's Bylaws, Article 9 of Law 9,249/95 and CVM Deliberation 638/12, which will be allocated to the mandatory minimum dividend for the fiscal year of 2017, as follows:

| Approval | Dates | Credit | Beginning of Payment | Gross Amount | | Net Value | | Amount per Share (1) | |
|----------|-------|--------|----------------------------|--------------|------------------|-----------|------------------|-------------------------|------------------|
| | | | | Common | Preferred (2) | Common | Preferred (2) | Common | Preferred (2) |
| | | | | | | | | | |

| | | | | | | | | | | |
|--------------|----------|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------|----------|
| 02/13/17 | 02/24/17 | Until 12/31/18 | 56,916 | 123,084 | 180,000 | 48,379 | 104,621 | 153,000 | 0.084970 | 0.093467 |
| 03/20/17 | 03/31/17 | Until 12/31/18 | 110,669 | 239,331 | 350,000 | 94,069 | 203,431 | 297,500 | 0.165220 | 0.181742 |
| 06/19/17 | 06/30/17 | Until 12/31/18 | 30,039 | 64,961 | 95,000 | 25,533 | 55,217 | 80,750 | 0.044845 | 0.049330 |
| 09/18/17 | 09/29/17 | Until 12/31/18 | 96,440 | 208,560 | 305,000 | 81,974 | 177,276 | 259,250 | 0.143978 | 0.158375 |
| Total | | | 294,064 | 635,936 | 930,000 | 249,954 | 540,546 | 790,500 | | |

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

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

d.3) Unclaimed dividends and interest on equity

Pursuant to article 287, paragraph II, item "a" of Law No. 6,404, 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.

In the nine-month period ended September 30, 2017, the Company reversed expired dividends in the amount of R\$72,840 (Note 16).

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:

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

| | Financial instruments available for sale | Consolidated Derivative transactions | Currency translation effects - foreign investments | Total |
|--|---|--|--|---------------|
| Balances at 12/31/15 | (8,936) | 379 | 34,025 | 25,468 |
| Exchange variation | - | - | (13,250) | (13,250) |
| Losses from future contracts | - | (3,800) | - | (3,800) |
| Losses on financial assets available for sale | 178 | - | - | 178 |
| Balances at 09/30/16 | (8,758) | (3,421) | 20,775 | 8,596 |
| Exchange variation | - | - | (3,982) | (3,982) |
| Gains from future contracts | - | 3,842 | - | 3,842 |
| Reclassification of gains cash flow hedge for capex | - | 3,128 | - | 3,128 |
| Gains on financial assets available for sale | (123) | - | - | (123) |
| Balances at 12/31/16 | (8,881) | 3,549 | 16,793 | 11,461 |
| Exchange variation | - | - | 6,493 | 6,493 |
| Gains from future contracts | - | (723) | - | (723) |
| Losses on financial assets available for sale | 264 | - | - | 264 |
| Balances at 09/30/17 | (8,617) | 2,826 | 23,286 | 17,495 |

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.

The repurchase shall be made through the use of the capital reserve balance included in the balance sheet as of 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 July 5, 2017, the Company acquired 661 preferred shares issued by the Company at an average unit price of R\$45.26, totaling R\$30. With this acquisition, the Company's total treasury shares total 2,291,164, of which 2,290,164 are common shares and 1,000 are preferred shares (Note 21 b.1).

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 period.

The following table shows the calculation of earnings per share in the nine-month ended September 30, 2017 and 2016:

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

| | Company | | | |
|--|---------------------------|-----------|--------------------------|-----------|
| | Three-month periods ended | | Nine-month periods ended | |
| | 09.30.17 | 09.30.16 | 09.30.17 | 09.30.16 |
| Net income for the year attributable to shareholders: | 1,222,716 | 952,690 | 3,091,835 | 2,870,416 |
| Common shares | 386,619 | 301,238 | 977,630 | 907,618 |
| Preferred shares | 836,097 | 651,452 | 2,114,205 | 1,962,798 |
| Number of shares: | 1,688,694 | 1,688,694 | 1,688,694 | 1,688,694 |
| Weighted average number of outstanding common shares for the year | 569,354 | 569,354 | 569,354 | 569,354 |
| Weighted average number of outstanding preferred shares for the year | 1,119,340 | 1,119,340 | 1,119,340 | 1,119,340 |
| Basic and diluted earnings per share: | | | | |
| Common shares (R\$) | 0.68 | 0.53 | 1.72 | 1.59 |
| Preferred shares (R\$) | 0.75 | 0.58 | 1.89 | 1.75 |

22) NET OPERATING REVENUE

| | Company | | | |
|--|---------------------------|--------------------|--------------------------|---------------------|
| | Three-month periods ended | | Nine-month periods ended | |
| | 09.30.17 | 09.30.16 | 09.30.17 | 09.30.16 |
| Gross operating revenue (1) | 15,174,130 | 15,592,940 | 46,978,442 | 43,639,922 |
| Deductions from gross operating revenue | (5,542,636) | (5,481,830) | (17,212,722) | (15,258,058) |
| Taxes | | | | |

| | | | | |
|--|------------------|-------------------|-------------------|-------------------|
| | (3,829,002) | (3,725,242) | (12,029,914) | (10,746,059) |
| Discounts granted and return of goods | (1,713,634) | (1,756,588) | (5,182,808) | (4,511,999) |
| Net operating revenue | 9,631,494 | 10,111,110 | 29,765,720 | 28,381,864 |

| | Consolidated | | | |
|--|---------------------------|--------------------|--------------------------|---------------------|
| | Three-month periods ended | | Nine-month periods ended | |
| | 09.30.17 | 09.30.16 | 09.30.17 | 09.30.16 |
| Gross operating revenue (1) | 16,582,845 | 16,259,140 | 49,706,431 | 48,294,193 |
| Deductions from gross operating revenue | (5,696,896) | (5,565,775) | (17,533,139) | (16,659,383) |
| Taxes | (3,979,585) | (3,803,844) | (12,342,050) | (11,463,699) |
| Discounts granted and return of goods | (1,717,311) | (1,761,931) | (5,191,089) | (5,195,684) |
| Net operating revenue | 10,885,949 | 10,693,365 | 32,173,292 | 31,634,810 |

(1) These include telephone services, use of interconnection network, data and SVA services, cable TV and other services. For the quarters ended September 30, 2017 and 2016 respectively, the amounts relating to infrastructure-related swap contracts, for which the Company acts as an agent under IAS 18, totaled R\$325,139 and R\$246,758, respectively (Note 23).

No one customer accounted for more than 10% of gross operating revenues in the nine-month ended September 30, 2017 and 2016.

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

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

23) OPERATING COSTS AND EXPENSES

| | Company | | | | Company | | |
|---|----------------------------|------------------|-------------------------------------|---------------------------------|----------------------------|------------------|-------------------------------------|
| | 09.30.17 | | | 09.30.16 | | | |
| | Cost of sales and services | Selling expenses | General and administrative expenses | Three-month periods ended Total | Cost of sales and services | Selling expenses | General and administrative expenses |
| Personnel | (169,596) | (494,849) | (123,948) | (788,393) | (207,349) | (529,510) | (186,980) |
| Third-party services | (1,208,455) | (1,620,191) | (301,535) | (3,130,181) | (1,221,255) | (1,567,357) | (297,320) |
| Interconnection and network use | (351,916) | - | - | (351,916) | (450,249) | - | - |
| Advertising and publicity | - | (274,061) | - | (274,061) | - | (264,102) | - |
| Rental, insurance, condominium and connection means (1) | (665,136) | (34,433) | (44,803) | (744,372) | (611,167) | (23,285) | (46,810) |
| Taxes, charges and contributions | (442,724) | (9,233) | (13,901) | (465,858) | (489,119) | (789) | (24,520) |
| Estimated impairment losses on accounts receivable (Note 4) | - | (354,877) | - | (354,877) | - | (322,828) | - |
| Depreciation and amortization (2) | (1,481,349) | (360,434) | (113,507) | (1,955,290) | (1,485,866) | (367,057) | (113,330) |
| Cost of goods sold | (420,877) | - | - | (420,877) | (476,150) | - | - |

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| | | | | | | | |
|--|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|------------------|
| Materials and other operating costs and expenses | (11,791) | (50,938) | (3,718) | (66,447) | (24,006) | (50,011) | (9,011) |
| Total | (4,751,844) | (3,199,016) | (601,412) | (8,552,272) | (4,965,161) | (3,124,939) | (677,988) |

| | Company | | | | | | |
|---|----------------------------|--------------------|-------------------------------------|---------------------|----------------------------|--------------------|-------------------------------------|
| | Nine-month periods ended | | | | | | |
| | 09.30.17 | | | 09.30.16 | | | |
| | Cost of sales and services | Selling expenses | General and administrative expenses | Total | Cost of sales and services | Selling expenses | General and administrative expenses |
| Personnel | (565,844) | (1,655,559) | (368,901) | (2,590,304) | (602,351) | (1,487,944) | (492,888) |
| Third-party services | (3,628,775) | (4,863,846) | (914,417) | (9,407,038) | (3,432,067) | (4,505,722) | (862,244) |
| Interconnection and network use | (1,069,564) | - | - | (1,069,564) | (1,426,763) | - | - |
| Advertising and publicity | - | (732,023) | - | (732,023) | - | (723,656) | - |
| Rental, insurance, condominium and connection means (1) | (1,957,270) | (110,806) | (135,438) | (2,203,514) | (1,665,013) | (92,698) | (138,955) |
| Taxes, charges and contributions | (1,329,280) | (30,141) | (34,574) | (1,393,995) | (1,382,006) | (3,480) | (56,255) |
| Estimated impairment losses on accounts receivable (Note 4) | - | (1,037,677) | - | (1,037,677) | - | (900,456) | - |
| Depreciation and amortization (2) | (4,423,556) | (1,080,655) | (338,185) | (5,842,396) | (4,082,646) | (956,027) | (317,173) |
| Cost of goods sold | (1,296,470) | - | - | (1,296,470) | (1,475,816) | - | - |
| Materials and other operating costs and expenses | (56,798) | (132,502) | (14,374) | (203,674) | (62,900) | (130,132) | (29,366) |
| Total | (14,327,557) | (9,643,209) | (1,805,889) | (25,776,655) | (14,129,562) | (8,800,115) | (1,896,866) |

Consolidated

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| | Three-month periods ended | | | | | | |
|--|-------------------------------|---------------------|---|--------------------|-------------------------------|---------------------|---|
| | 09.30.17 | | | 09.30.16 | | | |
| | Cost of sales and services | Selling expenses | General and administrative expenses | Total | Cost of sales and services | Selling expenses | General and administrative expenses |
| Personnel | (217,235) | (597,099) | (134,091) | (948,425) | (216,849) | (531,770) | (190,333) |
| Third-party services | (1,426,850) | (1,614,254) | (315,096) | (3,356,200) | (1,463,876) | (1,576,829) | (292,233) |
| Interconnection and network use | (351,916) | - | - | (351,916) | (453,651) | - | - |
| Advertising and publicity | - | (276,337) | - | (276,337) | - | (264,102) | - |
| Rental, insurance, condominium and connection means (1) | (667,173) | (34,491) | (45,117) | (746,781) | (612,978) | (23,471) | (46,877) |
| Taxes, charges and contributions | (448,191) | (9,235) | (14,101) | (471,527) | (496,284) | (789) | (24,911) |
| Estimated impairment losses on accounts receivable (Note 4) | - | (380,400) | - | (380,400) | - | (342,543) | - |
| Depreciation and amortization (2) | (1,487,827) | (360,443) | (113,704) | (1,961,974) | (1,491,917) | (367,066) | (113,553) |
| Cost of goods sold | (483,882) | - | - | (483,882) | (513,550) | - | - |
| Materials and other operating costs and expenses | (12,644) | (52,239) | (3,930) | (68,813) | (23,865) | (50,048) | (8,822) |
| Total | (5,095,718) | (3,324,498) | (626,039) | (9,046,255) | (5,272,970) | (3,156,618) | (676,733) |

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Three and nine-month period ended September 30, 2017

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

| | 09.30.17 | | | Consolidated Nine-month periods ended | | | |
|--|-------------------------------|---------------------|---|--|-------------------------------|---------------------|---|
| | Cost of sales and services | Selling expenses | General and administrative expenses | Total | Cost of sales and services | Selling expenses | General and administrative expenses |
| Personnel | (628,791) | (1,762,514) | (385,099) | (2,776,404) | (770,880) | (1,575,431) | (525,266) |
| Third-party services | (4,230,763) | (4,846,822) | (923,959) | (10,001,544) | (4,384,522) | (4,595,885) | (908,644) |
| Interconnection and network use | (1,069,564) | - | - | (1,069,564) | (1,461,279) | - | - |
| Advertising and publicity | - | (734,299) | - | (734,299) | - | (775,418) | - |
| Rental, insurance, condominium and connection means (1) | (1,964,316) | (111,494) | (135,857) | (2,211,667) | (1,768,588) | (102,354) | (139,785) |
| Taxes, charges and contributions | (1,355,184) | (30,143) | (35,758) | (1,421,085) | (1,430,395) | (4,713) | (61,299) |
| Estimated impairment losses on accounts receivable (Note 4) | - | (1,108,925) | - | (1,108,925) | - | (1,003,976) | - |
| Depreciation and amortization (2) | (4,442,631) | (1,080,683) | (339,494) | (5,862,808) | (4,469,743) | (1,052,066) | (317,333) |
| Cost of goods sold | (1,421,308) | - | - | (1,421,308) | (1,565,118) | - | - |
| Materials and other operating costs and expenses | (59,990) | (137,467) | (14,829) | (212,286) | (79,348) | (137,440) | (38,866) |

Total (15,172,547) (9,812,347) (1,834,996) (26,819,890) (15,929,873) (9,247,283) (1,991,19)

(1) The amounts relating to infrastructure-related swap contracts, under the concept of agent under CPC 30/IAS 18, which were not recognized as costs and revenues in the nine-month ended September 30, 2017 and 2016 respectively, totaled R\$325,139 and R\$246,758, respectively (Note 22).

(2) Includes R\$1,267 and R\$5,774, related to non-cumulative PIS and COFINS tax credits in the nine-month ended September 30, 2017 and 2016, respectively.

24) OTHER OPERATING INCOME (EXPENSES), NET

| | Company | | | |
|---|---------------------------|------------------|--------------------------|---------------|
| | Three-month periods ended | | Nine-month periods ended | |
| | 09.30.17 | 09.30.16 | 09.30.17 | 09.30.16 |
| Recovered expenses and fines | 87,729 | 109,163 | 267,286 | 348,429 |
| Provisions for labor, tax, civil, regulatory and contingent liabilities (Note 17) | (191,878) | (229,301) | (640,383) | (713,451) |
| Net gain (loss) on asset disposal/loss (1) | (2,373) | (7,267) | (19,310) | 458,380 |
| Other operating income (expenses) (2) | (15,672) | (19,757) | (104,970) | (2,733) |
| Total | (122,194) | (147,162) | (497,377) | 90,625 |
| Other operating income | 87,729 | 109,163 | 267,286 | 806,809 |
| Other operating expenses | (209,923) | (256,325) | (764,663) | (716,184) |
| Total | (122,194) | (147,162) | (497,377) | 90,625 |
| | Consolidated | | | |
| | Three-month periods ended | | Nine-month periods ended | |
| | 09.30.17 | 09.30.16 | 09.30.17 | 09.30.16 |
| Recovered expenses and fines | 88,450 | 109,979 | 270,572 | 369,832 |
| Provisions for labor, tax, civil, regulatory and PPA (Note 17) | (190,160) | (232,539) | (650,654) | (744,489) |
| Net gain (loss) on asset disposal/loss (1) | (3,331) | (5,880) | (22,921) | 465,391 |

| | | | | |
|--|------------------|------------------|------------------|---------------|
| Other operating income (expenses) (2) | (19,705) | (20,870) | (93,975) | 2,776 |
| Total | (124,746) | (149,310) | (496,978) | 93,510 |
| Other operating income | 88,450 | 109,979 | 270,572 | 837,999 |
| Other operating expenses | (213,196) | (259,289) | (767,550) | (744,489) |
| Total | (124,746) | (149,310) | (496,978) | 93,510 |

(1) The amount shown for 2016 includes R\$476,371 (net of residual values) from the Company's sale of 1,655 transmission towers to Telxius Torres Brasil (company of the Telefónica Group). After the sale of these assets, a lease agreement for part of the towers sold was entered into, thus ensuring continued transmission of data for mobile services.

The transaction was recognized as sale and leaseback as provided under IAS 17. Management analyzed each asset leased back and classified them as operating or finance leases in accordance with IAS 17 qualitative and quantitative criteria.

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Risks and benefits relating to these towers have been transferred to their purchasers, with the exception of several towers for which transfer of risks and benefits was not possible. For these items, the amount was recognized as deferred revenue (Note 18).

(2) In the same transaction described in item (1), the Company transferred assignment of current lease agreements for sites and sold sharing agreements (customer portfolio) for R\$40,899.

25) FINANCIAL INCOME (EXPENSES)

| | Company | | | |
|---|---------------------------|----------------|--------------------------|------------------|
| | Three-month periods ended | | Nine-month periods ended | |
| | 09.30.17 | 09.30.16 | 09.30.17 | 09.30.16 |
| Financial Income | | | | |
| Interest income | 160,306 | 194,740 | 491,371 | 452,154 |
| Interest receivable (customers, taxes and other) | 30,865 | 376 | 102,226 | 35,383 |
| Gain on derivative transactions (Note 30) | 85,437 | 204,116 | 294,446 | 822,813 |
| Foreign exchange variations on loans and financing (Note 19) | 46,026 | 4,327 | 108,950 | 408,242 |
| Other revenues from foreign exchange and monetary variation | 96,958 | 130,657 | 323,932 | 254,677 |
| Other financial income | 32,215 | 18,825 | 107,949 | 26,482 |
| Total | 451,807 | 553,041 | 1,428,874 | 1,999,751 |
| Financial Expenses | | | | |
| Loan, financing, debenture, finance lease charges and contingent consideration (Note 19) | (240,733) | (292,903) | (775,434) | (800,308) |

| | | | | |
|--|------------------|------------------|--------------------|--------------------|
| Foreign exchange variation on loans and financing (Note 19) | (8,839) | (12,316) | (88,817) | (127,222) |
| Loss on derivative transactions (Note 30) | (115,008) | (216,435) | (361,249) | (1,137,877) |
| Interest payable (financial institutions, provisions, trade accounts payable, taxes and other) | (34,684) | (38,182) | (110,720) | (202,396) |
| Other expenses with foreign exchange and monetary variation | (210,365) | (267,327) | (747,096) | (563,873) |
| IOF, Pis, Cofins and other financial expenses | (41,984) | (45,141) | (139,717) | (112,044) |
| Total | (651,613) | (872,304) | (2,223,033) | (2,943,720) |

| | Consolidated | | | |
|---|---------------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|
| | Three-month periods ended 09.30.17 | Three-month periods ended 09.30.16 | Nine-month periods ended 09.30.17 | Nine-month periods ended 09.30.16 |
| Financial Income | | | | |
| Interest income | 173,724 | 211,671 | 543,878 | 509,301 |
| Interest receivable (customers, taxes and other) | 32,356 | 3,199 | 104,396 | 60,298 |
| Gain on derivative transactions (Note 30) | 88,789 | 204,116 | 297,798 | 822,813 |
| Foreign exchange variations on loans and financing (Note 19) | 46,026 | 4,327 | 108,950 | 408,242 |
| Other revenues from foreign exchange and monetary variation | 98,243 | 130,722 | 329,579 | 253,185 |
| Other financial income | 39,303 | 25,483 | 128,752 | 46,312 |
| Total | 478,441 | 579,518 | 1,513,353 | 2,100,151 |
| Financial Expenses | | | | |
| Loan, financing, debenture, finance lease charges and indemnification liability (Note 19) | (240,733) | (292,903) | (775,434) | (840,801) |
| Foreign exchange variation on loans and financing (Note 19) | (8,839) | (12,316) | (88,817) | (127,222) |

| | | | | |
|--|------------------|------------------|--------------------|--------------------|
| Loss on derivative transactions (Note 30) | (115,409) | (216,435) | (361,650) | (1,137,877) |
| Interest payable (financial institutions, provisions, trade accounts payable, taxes and other) | (35,382) | (40,649) | (112,799) | (210,339) |
| Other expenses with foreign exchange and monetary variation | (205,363) | (268,125) | (756,626) | (562,979) |
| IOF, Pis, Cofins and other financial expenses | (43,227) | (45,428) | (143,197) | (140,123) |
| Total | (648,953) | (875,856) | (2,238,523) | (3,019,341) |

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26) INCOME TAX AND SOCIAL CONTRIBUTION

The Company and its subsidiaries recognize income tax and social contribution on a monthly 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 of 9%).

| | Company | | | |
|--|---------------------------|-----------|--------------------------|-------------|
| | Three-month periods ended | | Nine-month periods ended | |
| | 09.30.17 | 09.30.16 | 09.30.17 | 09.30.16 |
| Income before taxes | 1,411,579 | 1,049,388 | 3,776,670 | 3,325,147 |
| Income and social contribution tax expenses, at the tax rate of 34% | (479,937) | (356,792) | (1,284,068) | (1,130,550) |
| <u>Permanent and temporary differences</u> | | | | |
| Equity pickup, net of effects from interest on equity received and surplus value of the assets purchased attributed to the Company (Note 10) | 222,481 | 58,749 | 366,908 | 211,878 |
| Unclaimed interest on equity | - | - | (10,319) | - |
| Non-deductible expenses, gifts, incentives | (32,527) | (20,881) | (70,761) | (80,563) |
| Tax benefit related to interest on equity | 103,700 | 221,000 | 316,200 | 533,120 |

| | | | | |
|---|------------------|-----------------|------------------|------------------|
| allocated Other (additions) exclusions | (2,580) | 1,226 | (2,795) | 11,384 |
| Tax debits | (188,863) | (96,698) | (684,835) | (454,731) |
| Effective rate | 13.4% | 9.2% | 18.1% | 13.7% |
| Current income and social contribution taxes | 48,385 | 75,059 | 46,222 | (184,998) |
| Deferred income and social contribution taxes | (237,248) | (171,757) | (731,057) | (269,733) |

Consolidated

| | Three-month periods ended | | Nine-month periods ended | |
|--|---------------------------|-----------|--------------------------|-------------|
| | 09.30.17 | 09.30.16 | 09.30.17 | 09.30.16 |
| Income before taxes | 1,544,449 | 1,141,663 | 4,132,616 | 3,641,778 |
| Income and social contribution tax expenses, at the tax rate of 34% | (525,112) | (388,165) | (1,405,089) | (1,238,205) |
| <u>Permanent and temporary differences</u> | | | | |
| Equity pickup, net of effects from interest on equity received and surplus value of the assets purchased attributed to the Company (Note 10) | 4 | 92 | 463 | 339 |
| Unclaimed interest on equity | - | - | (10,319) | - |
| Temporary differences in subsidiaries | 1,999 | - | 1,999 | - |
| Non-deductible expenses, gifts, incentives | (32,527) | (22,522) | (72,695) | (84,077) |
| Tax benefit related to interest on equity allocated | 103,700 | 221,000 | 316,200 | 533,120 |
| Deferred taxes recognized in subsidiaries on tax loss carryforwards, negative basis and temporary differences referring to prior years | 132,080 | - | 132,080 | - |

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| | | | | |
|---|------------------|------------------|--------------------|------------------|
| Other (additions) exclusions | (1,877) | 622 | (3,420) | 17,461 |
| Tax debits | (321,733) | (188,973) | (1,040,781) | (771,362) |
| Effective rate | 20.8% | 16.6% | 25.2% | 21.2% |
| Current income and social contribution taxes | (196,389) | (818) | (440,085) | (475,273) |
| Deferred income and social contribution taxes | (125,344) | (188,155) | (600,696) | (296,089) |

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

27) BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Balances and transactions with related parties

The main balances of assets and liabilities with related parties arise 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 (former Telefónica International Wholesale Brasil), Telefónica International Wholesale Services Espanha, Telefónica USA; and Media Net Br;

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

- h) Tower operations between the Company and Telxius Torres Brasil (sale and leaseback operation, Note 24);

- i) Content-related services provided by Terra Networks Brasil. On July 3, 2017, TData (a wholly-owned subsidiary of the Company) acquired the controlling interest in Terra Networks Brasil (note 1e). The balance presented in the result table refers to the period from January to June 2017;

- 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 Latino América Holding S.L. (former Telefónica Internacional) and 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;
-

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- 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; and
- w) Operations with Terra Group companies headquartered abroad, related to the apportionment of corporate expenses, purchase of internet content, advertising and auditing services. The balance presented in the income statement refers to the period beginning on July 3, 2017, the date of Terra Brasil Networks' acquisition of TData (Note 1e).

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

The following table summarizes the consolidated balances with related parties:

| <u>Companies</u> | Type of transaction | Balance Sheet - Assets | | |
|------------------|---------------------|------------------------|----------------|--------------------|
| | | At 09/30/17 | Current assets | Non-current assets |
| | | | Other assets | Cu |

| | | Cash and cash equivalents | Accounts receivable, net | | Other assets | Cash and cash equivalents |
|--|--------------|---------------------------------|--------------------------------|----------------|-----------------|---------------------------------|
| <u>Parent Companies</u> | | | | | | |
| SP | | | | | | |
| Telecomunicações Participações Telefónica LatinoAmerica Holding | d) / l) | - | - | 4,571 | 2 | - |
| Telefónica | l) | - | 466 | 149 | - | - |
| | | - | 466 | 127,789 | 2 | - |
| <u>Other Group companies</u> | | | | | | |
| Colombia | | | | | | |
| Telecomunicaciones ESP | k) | - | 2,864 | 4,249 | - | - |
| Companhia AIX de Participações Media Networks Brasil Soluções Digitais | a) | - | 23 | - | - | - |
| | a) / d) | - | 1,512 | 72 | 40 | - |
| Pegaso PCS | k) | - | 2,701 | - | - | - |
| T.O2 Germany GMBH CO. OHG | k) | - | 18,868 | - | - | - |
| Telcel Telecom. Celulares C. A. | k) | - | 6,069 | - | - | - |
| Telefónica Factoring do Brasil | a) / d) / l) | - | 7,468 | 21 | 15 | - |
| Telefónica Global Technology | l) | - | - | 12,976 | - | - |
| Telefónica Inteligência e Segurança Brasil | a) / d) / l) | - | 296 | 615 | 350 | - |
| Telefónica International Wholesale Services Espanha | j) / k) | - | 70,941 | - | - | - |
| Telefónica Learning Services Brasil | a) | - | 223 | - | - | - |
| Telefónica Mviles Argentina | k) | - | 6,623 | - | - | - |
| Telefónica Mviles Del Chile | k) | - | 394 | 365 | - | - |
| Telefónica Mviles Del Espanha | k) | - | 8,777 | - | - | - |
| Telefónica Mviles Del Uruguay | k) | - | 521 | - | - | - |

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| | | | | | | |
|---|-----------------------------|---------------|----------------|----------------|--------------|---------------|
| Telefónica Mviles Panama | k) | - | 281 | - | - | - |
| Telefônica On The Spot Soluções Digitais Brasil | a) / d) | - | 413 | 9 | - | - |
| Telefônica Serviços Empresariais do Brasil | a) / d) / l) / p) | - | 2,858 | 64 | 1,686 | - |
| Telefonica UK LTD.(O2 UK LTD) | k) | - | 8,431 | - | - | - |
| Telefónica USA | j) | - | 5,739 | - | - | - |
| Telfisa | q) | 11,537 | - | - | - | 78,070 |
| Telxius Cable Brasil | a) / d) / k / l) / p) | - | 23,679 | 754 | 76 | - |
| Telxius Torres Brasil | d) / l) p) / h) | - | 12,350 | 140 | - | - |
| Terra Networks Brasil | a) / d) / l) | - | - | - | - | - |
| Outras | a) / d) / k) / l) / p) / w) | - | 13,161 | 897 | 126 | - |
| | | 11,537 | 194,192 | 20,162 | 2,293 | 78,070 |
| Total | | 11,537 | 194,658 | 147,951 | 2,295 | 78,070 |

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

| | Type of transaction | Balance Sheet - Liabilities | | |
|---|---------------------|---|-------------------|-------------------------|
| | | At 09/30/17 | | Non-current liabilities |
| | | Current liabilities | Other liabilities | Other liabilities |
| | | Trade accounts payable and other payables | Other liabilities | |
| Companies | | | | |
| Parent Companies | | | | |
| SP Telecomunicações Participações | l) | - | 15,000 | - |
| Telefónica LatinoAmerica Holding | l) | 81 | - | - |
| Telefónica | l) m) / n) | 3,973 | 80,612 | - |
| | | 4,054 | 95,612 | - |
| Other Group companies | | | | |
| Colombia Telecomunicaciones S.A. ESP | k) | 1,375 | - | - |
| Companhia AIX de Participações | u) | 1,915 | - | - |
| Fundação Telefônica | t) | - | - | - |
| Media Networks Brasil Soluções Digitais | f) | 23,850 | - | 318 |
| Media Networks Latina America SAC | b) | 27,918 | - | - |
| Pegaso PCS | k) | 319 | - | - |
| T.O2 Germany GMBH CO. OHG | k) | 5,309 | - | - |
| Telcel Telecom. Celulares C. A. | k) | 5,226 | - | - |
| Telefónica Compras Electrónicas | v) | 23,109 | - | - |
| Telefônica Digital España | o) | 56,725 | - | - |
| Telefônica Factoring do Brasil | s) | - | 146 | - |
| Telefonica Global Roaming | k) | - | - | - |

| | | | | | |
|---|--------------|----------------|----------------|--------------|-----------|
| | | 1,796 | - | | |
| Telefónica Global Technology | e) | 3,363 | - | - | |
| Telefônica Inteligência e Segurança Brasil | c) | 15,324 | 19 | 8 | 2 |
| Telefónica International Wholesale Services Espanha | f) / k) | 24,898 | 8 | - | 5 |
| Telefônica Learning Services Brasil | r) | 20,538 | - | - | |
| Telefónica Mviles Argentina | k) | 3,920 | - | - | |
| Telefónica Mviles Del Chile | k) | 1,021 | - | - | |
| Telefónica Mviles Del Espanha | k) | 3,619 | - | - | |
| Telefónica Mviles Del Uruguay | k) | 397 | - | - | |
| Telefónica Mviles Panama | k) | 172 | - | - | |
| Telefônica On The Spot Soluções Digitais Brasil | g) | 3,125 | - | - | |
| Telefônica Serviços Empresariais do Brasil | l) | - | 42 | 434 | |
| Telefonica UK LTD.(O2 UK LTD) | k) | 2,764 | - | - | |
| Telefónica USA | f) | 5,287 | - | 164 | |
| Telxius Cable Brasil | d) / f) / l) | 57,047 | 1,874 | 378 | 5 |
| Telxius Torres Brasil | d) h) | 33,777 | 5,534 | - | 3 |
| Terra Networks Brasil | i) | - | - | - | |
| Outras | l) / k) / w) | 10,385 | - | 29 | |
| | | 333,179 | 7,623 | 1,331 | 37 |
| Total | | 337,233 | 103,235 | 1,331 | 38 |

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| | Type of transaction | Income statement | |
|---|---------------------|------------------|------------------|
| | | 09/30/17 | 09/30/16 |
| <u>Companies</u> | | | |
| <u>Parent Companies</u> | | | |
| SP Telecomunicações Participações | d) / l) | 201 | 47 |
| Telefónica LatinoAmerica Holding | l) / o) | 35,141 | 71,860 |
| Telefónica | l) / m) / n) | (250,541) | (240,588) |
| | | (215,199) | (168,681) |
| <u>Other Group companies</u> | | | |
| Colombia Telecomunicaciones S.A. ESP | k) | 1,065 | (3,082) |
| Companhia AIX de Participações | a) / u) | (16,971) | (15,755) |
| Fundação Telefônica | a) / d) / l) t) | (9,514) | (8,950) |
| Media Networks Brasil Soluções Digitais | a) / d) / f) | (36,924) | (4,059) |
| Media Networks Latina America SAC | b) | (23,742) | (5,017) |
| Pegaso PCS | k) | 1,025 | (5,167) |
| T. Learning Services Brasil | a) / r) | (35,158) | (32,872) |
| T.O2 Germany GMBH CO. OHG | k) | (237) | (4,301) |
| Telcel Telecom. Celulares C. A. | k) | (5,712) | (451) |
| Telefónica Compras Electrónicas | v) | (19,722) | (35,874) |
| Telefônica Digital España | l) / o) | (55,565) | (29,787) |
| Telefônica Factoring do Brasil | a) / d) / l) / s) | 871 | 557 |
| Telefonica Global Roaming | k) | (2,580) | (6,074) |
| Telefónica Global Technology, S.A.U. | e) / l) | (23,217) | (22,463) |

| | | | |
|---|------------------------------|------------------|------------------|
| Telefônica Inteligência e Segurança Brasil | a) / c) / d) / l) | (22,543) | (25,394) |
| Telefónica International Wholesale Services Espanha | f) / j) / k) | 22,520 | (3,608) |
| Telefónica Mviles Argentina | k) | 9,596 | (5,659) |
| Telefónica Mviles Del Chile | k) | (899) | 259 |
| Telefónica Mviles Del Espanha | k) | (982) | (2,838) |
| Telefónica Mviles Del Uruguay | k) | 422 | (1,602) |
| Telefónica Mviles Panama | k) | (85) | (911) |
| Telefônica On The Spot Soluções Digitais Brasil | a) / d) / g) | (4,917) | (2,137) |
| Telefônica Serviços Empresariais do Brasil | a) / d) / l) / p) | (1,035) | 1,038 |
| Telefonica UK LTD.(O2 UK LTD) | k) | 684 | (863) |
| Telefónica USA | f) / j) | (11,940) | (8,199) |
| Telxius Cable Brasil | a) / d) / f) / k) / l) / p) | (142,892) | (189,430) |
| Telxius Torres Brasil | d) / l) / p) / h) | (78,398) | (46,595) |
| Terra Networks Brasil | a) / d) / i) / l) | (8,234) | (2,879) |
| Outras | a) / d) / k) / l) / p) w) | (4,628) | (1,211) |
| Total | | (469,712) | (463,324) |
| | | (684,911) | (632,005) |

Management compensation

Consolidated key management personnel compensation paid by the Company to its Board of Directors and Statutory Officers were R\$16,101 and R\$45,235 for the quarters ended September 30, 2017 and 2016 respectively. Of this amount, R\$10,455 (R\$19,445 on September 30, 2016) corresponds to salaries, benefits and social charges and R\$5,646 (R\$25,790 on September 30, 2016) to variable compensation.

These amounts were recorded as expenses with personnel under the General and administrative expenses group of accounts (Note 23).

For the quarters ended September 30, 2017 and 2016, 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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The Company and its subsidiaries reimburse Telefônica for the amount of the fair value of the benefits granted to management and employees on the grant date.

The main plans in force on September 30, 2017 and December 31, 2016 were: (i) Performance & Investment Plan ("PIP") to reward senior management's global commitment; and (ii) Talent for the Future Share Plan ("TFSP") to reward the global commitment.

The details of these plans are the same as in Note 31) Share-Based Payment Plans, as disclosed in the financial statements for the year ended December 31, 2016.

The 2014-2017 cycle of PIP and TFSP were finalized in September 2017 and no Total Shareholder Return (TSR) was achieved, thus, no Telefônica shares were delivered to the Company's executives.

At September 30, 2017, the share price of Telefônica shares was 9.1920 euros and the plans were positioned as follows:

| Plans | Cycles | Number of shares (1) | Final Date |
|-------|---------------------------------|-------------------------|--------------------|
| PIP | 5th cycle - October 1, 2015 (2) | 485,589 | September 30, 2018 |
| TFSP | 2nd cycle - October 1, 2015 | 83,500 | September 30, 2018 |

(1) For the PIP, it includes the initial quantities and co-investment and for the TFSP only the initial quantities.

(2) With 88 active executives (including 3 executives appointed under the Company's Bylaws).

On July 31, 2017 the cycle of the Global Employee Share Plan ("GESP") was finalized, with the delivery of the shares to employees who fulfilled the conditions established by the plan.

The expenses of the Company and its subsidiaries with the compensation plans based on actions described above, where applicable, are recorded as personnel expenses, divided between Cost of Services, Selling and General and Administrative Expenses (Note 23), corresponding to R\$5,540 and R\$10,928 for the quarters ended September 30, 2017 and 2016 respectively.

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 |
| CTB | Defined benefit (DB) | Telefônica Brasil | Telefônica Brasil |
| Telefônica BD | Defined benefit (DB) | VisãoPrev | Telefônica Brasil |
| PREV | Hybrid | VisãoPrev | Telefônica Brasil |
| VISÃO | Defined contribution (DC) / Hybrid | VisãoPrev | Telefônica Brasil, TData and TGLog |

The details of these plans are the same as in Note 32) Pension Plans and Other Post-Employment Benefits, as disclosed in the financial statements for the year ended December 31, 2016, except for the plans Vivo Prev, Visão T Gestiona and Visão Telefônica, as described below.

On December 9, 2016, Visão Prev obtained approvals from the National Supplementary Pension Authority ("PREVIC") for the incorporation of Vivo Prev and Visão T Gestiona plans to the Visão Telefônica plan. In this way, as of January 1, 2017, all participants in Vivo Prev and Visão T Gestiona plans became participants in the Visão Telefônica plan. This unification preserves all vested rights, and gives participants of the incorporated plans access to the benefits of the Visão Telefônica plan.

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The main purpose of the mergers is to create greater synergy of the benefits offered to the participants, as well as to reduce administrative and operational costs of the plans, as well as to improve administrative efficiency.

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

| | Plans with surplus | Consolidated Plans with deficit | Total |
|--|-----------------------|---------------------------------------|------------------|
| Balances at 12/31/15 | | | |
| Current service cost | 8,724 | (85,343) | (76,619) |
| Net interest on net defined benefit liabilities/assets | (2,155) | (2,024) | (4,179) |
| Contributions and benefits paid by the employers | 977 | (7,174) | (6,197) |
| Balances at 09/30/16 | 2,178 | 12,616 | 14,794 |
| Current service cost | 9,724 | (81,925) | (72,201) |
| Net interest on net defined benefit liabilities/assets | (719) | (674) | (1,393) |
| Contributions and benefits paid by the employers | 325 | (2,392) | (2,067) |
| Effects on comprehensive income | (120) | (6,081) | (6,201) |
| Balances at 12/31/16 | (169) | (236,598) | (236,767) |
| Current service cost | 9,041 | (327,670) | (318,629) |
| Net interest on net defined benefit liabilities/assets | (2,362) | (5,754) | (8,116) |
| Contributions and benefits paid by the employers | 884 | (26,805) | (25,921) |
| Business combination (Note 1e) | 2,096 | 8,241 | 10,337 |
| Balances at 09/30/17 | 13 | (680) | (667) |
| | 9,672 | (352,668) | (342,996) |

Of the surplus amounts shown in the table above, the Company recognized consolidated amounts of R\$9,441 and R\$8,838 at September 30, 2017 and December 31, 2016, respectively (Note 9).

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 September 30, 2017 and December 31, 2016, 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 September 30, 2017 and December 31, 2016, 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 early maturity thereof.

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a.1) Fair value of derivative financial instruments

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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| Description | Notional Value | | Consolidated Net position at fair value | | Accumulated effects from fair value Amount receivable (payable) | |
|------------------------------|--------------------|--------------------|--|--------------------|--|------------------|
| | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| <u>Long position</u> | 1,852,339 | 2,739,524 | 2,004,568 | 2,836,207 | 177,031 | 212,993 |
| <u>Foreign Currency</u> | 1,021,604 | 1,522,598 | 1,025,127 | 1,599,378 | 106,805 | 158,762 |
| US\$ (1) (2) | 518,965 | 742,137 | 508,338 | 730,490 | 49,543 | 73,833 |
| EUR (2) | - | 70,064 | - | 66,959 | - | - |
| LIBOR US\$ (1) | 462,138 | 710,397 | 516,770 | 801,929 | 57,243 | 84,929 |
| Options US\$ (7) | 40,501 | - | 19 | - | 19 | - |
| <u>Floating rate</u> | 631,190 | 898,324 | 659,103 | 800,097 | 32,897 | 31,987 |
| CDI (1) (2) | 174,567 | 254,883 | 174,669 | 138,710 | 76 | 3,979 |
| TJLP (4) | 456,623 | 643,441 | 484,434 | 661,387 | 32,821 | 28,008 |
| <u>Inflation rates</u> | 199,545 | 318,602 | 320,338 | 436,732 | 37,329 | 22,244 |
| IPCA (3) (5) | 169,281 | 192,318 | 279,027 | 269,817 | 37,329 | 17,998 |
| IGPM (6) | 30,264 | 126,284 | 41,311 | 166,915 | - | 4,246 |
| <u>Short position</u> | (2,059,951) | (2,573,351) | (1,985,731) | (2,807,830) | (158,194) | (184,616) |
| <u>Floating rate</u> | (40,501) | - | - | - | - | - |
| Options US\$ (7) | (40,501) | - | - | - | - | - |

(5) IPCA x CDI swaps (R\$225,438) - maturing in 2033 to hedge risk of change in finance lease rate pegged to IPCA (carrying amount R\$238,847).

(6) IGPM x CDI swaps (R\$42,113) - maturing 2016 through 2018 to hedge IGP-DI variation risk affecting regulatory commitments related to 4G license.

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(7) Options US\$ - term transactions and options contracted with the purpose of protecting the US\$ exposure of service contracts.

The table below shows the breakdown of swaps maturing after September 30, 2017:

| Swap contract | | Consolidated Maturing in | | | 2021 onwards | Amount receivable (payable) at 09/30/17 |
|---------------------------|------------------|-----------------------------|---------------|---------------|-----------------|--|
| | | 2018 | 2019 | 2020 | | |
| Foreign currency x CDI | (120,923) | 58,135 | 33,975 | - | (28,813) | |
| CDI x Foreign Currency | (4,725) | (194) | (64) | - | (4,983) | |
| TJLP x CDI | 5,499 | 19,859 | 7,464 | - | 32,822 | |
| IPCA x CDI | (1,425) | 618 | 9,382 | 12,019 | 20,594 | |
| IGPM x CDI | - | (802) | - | - | (802) | |
| Options | 19 | - | - | - | 19 | |
| Total | (121,555) | 77,616 | 50,757 | 12,019 | 18,837 | |

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, IGPM 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 September 30, 2017 was R\$1,404 (R\$2,091 at December 31, 2016).

At September 30, 2017 and 2016, the transactions with derivatives generated consolidated negative (net) result of R\$66,803 and R\$315,064, respectively (Note 25).

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 September 30, 2017.

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Sensitivity analysis - net exposure

| <u>Transaction</u> | <u>Risk</u> | Consolidated | | |
|------------------------|--|--------------|---------------------|---------------------|
| | | Probable | 25% depreciation | 50% depreciation |
| Hedge (long position) | Derivatives (depreciation risk US\$) | 589,371 | 735,716 | 881,674 |
| Debt in US\$ | Debt (appreciation risk US\$) | (589,371) | (735,716) | (881,674) |
| | Net Exposure | - | - | - |
| Hedge (short position) | Derivatives (depreciation risk EUR) | (68,446) | (85,558) | (102,669) |
| Payables in EUR | Debt (appreciation risk EUR) | (41,679) | (52,099) | (62,519) |
| Receivables in EUR | Debt (depreciation risk EUR) | 109,724 | 137,155 | 164,586 |
| | Net Exposure | (401) | (502) | (602) |
| Hedge (short position) | Derivatives (depreciation risk US\$) | (56,580) | (70,726) | (84,871) |
| Payables in US\$ | Debt (appreciation risk US\$) | 164,029 | 205,037 | 246,044 |
| Receivables in US\$ | Debt (depreciation risk US\$) | (107,355) | (134,193) | (161,032) |
| | Net Exposure | 94 | 118 | 141 |
| Hedge (long position) | Derivatives (risk of decrease in IPCA) | 284,760 | 265,019 | 247,626 |
| Debt in IPCA | Debt (risk of increase in IPCA) | (386,199) | (366,451) | (349,051) |
| | Net Exposure | (101,439) | (101,432) | (101,425) |
| Hedge (long position) | Derivatives (risk of decrease in IGP-DI) | 41,311 | 41,211 | 41,112 |

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| | | | | |
|--|---|--------------------|--------------------|--------------------|
| Debt in IGP-DI | Debt (risk of increase in IGP-DI) | (136,173) | (136,173) | (136,173) |
| | Net Exposure | (94,862) | (94,962) | (95,061) |
| Hedge (long position) | Derivatives (risk of decrease in UMBND) | 246,760 | 307,266 | 367,317 |
| Debt in UMBND | Debt (risk of increase in UMBND) | (250,556) | (312,481) | (374,066) |
| | Net Exposure | (3,796) | (5,215) | (6,749) |
| Hedge (long position) | Derivatives (risk of decrease in TJLP) | 484,434 | 478,585 | 472,910 |
| Debt in TJLP | Debt (risk of increase in TJLP) | (1,720,346) | (1,714,189) | (1,708,215) |
| | Net Exposure | (1,235,912) | (1,235,604) | (1,235,305) |
| Hedge (long position) | Derivatives (risk of decrease in US\$) | 40,501 | 48,580 | 48,580 |
| OPex in US\$ | OPex (risk of increase in US\$) | (40,501) | (50,626) | (60,751) |
| | Net Exposure | - | (2,046) | (12,171) |
| Hedge (CDI position) | | | | |
| Hedge US\$ and EUR (short and long position) | Derivatives (risk of decrease in CDI) | (124,623) | (169,007) | (213,343) |
| Hedge IPCA (short position) | Derivatives (risk of increase in CDI) | (284,760) | (265,019) | (247,626) |
| Hedge IGPM (short position) | Derivatives (risk of increase in CDI) | (41,311) | (41,211) | (41,112) |
| Hedge UMBND (short position) | Derivatives (risk of increase in CDI) | (246,760) | (307,266) | (367,317) |
| Hedge TJLP (short position) | Derivatives (risk of increase in CDI) | (484,434) | (478,585) | (472,910) |
| Hedge US\$ (short position) | Derivatives (risk of increase in CDI) | (589,371) | (735,716) | (881,674) |
| Hedge US\$ (short position) - Opex | Derivatives (risk of increase in CDI) | (40,501) | (48,580) | (48,580) |
| | Net Exposure | (1,811,760) | (2,045,384) | (2,272,562) |
| Total net exposure in each scenario | | (3,248,076) | (3,485,027) | (3,723,734) |
| Net effect on changes in current fair value | | - | (236,951) | (475,658) |

The assumptions used by the Company for the sensitivity analysis at September 30, 2017 were as follows:

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Sensitivity analysis assumptions

| <u>Risk Variable</u> | Probable | 25% depreciation | 50% depreciation |
|----------------------|----------|------------------|------------------|
| US\$ | 3.1680 | 3.9600 | 4.7520 |
| EUR | 3.7427 | 4.6783 | 5.6140 |
| JPY | 0.0281 | 0.0352 | 0.0422 |
| IPCA | 2.47% | 3.08% | 3.70% |
| IGPM | -1.45% | -1.81% | -2.17% |
| IGP-DI | -1.18% | -1.48% | -1.78% |
| UMBND | 0.0618 | 0.0773 | 0.0928 |
| URTJLP | 2.0265 | 2.5331 | 3.0397 |
| CDI | 8.14% | 10.18% | 12.21% |

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

The fair values shown in the table above are based on the portfolio position at September 30, 2017, 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 September 30, 2017 and December 31, 2016, 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 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 where the significant lowest level of information available to measure the fair value is directly or indirectly observable; and

Level 3: valuation techniques where 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 September 30, 2017 and December 31, 2016. During the periods shown in the tables below, there were no transfers between fair value measurements of level 3 and level 1 and 2.

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| | Classification by category | Fair value hierarchy | Company Book value | | Fair value | |
|--|---|----------------------|--------------------|-------------------|-------------------|-------------------|
| | | | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Financial Assets | | | | | | |
| Current | | | | | | |
| Cash and cash equivalents (Note 3) | Amortized cost | | 5,131,933 | 4,675,627 | 5,131,933 | 4,675,627 |
| Trade accounts receivable, net (Note 4) | Loans and receivables | | 8,072,174 | 8,282,685 | 8,072,174 | 8,282,685 |
| Derivative transactions (Note 30) | Measured at fair value through profit or loss | Level 2 | 8,798 | 3,979 | 8,798 | 3,979 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 71,695 | 64,964 | 71,695 | 64,964 |
| Non-current | | | | | | |
| Short-term investments pledged as collateral | Amortized cost | | 85,282 | 78,153 | 85,282 | 78,153 |
| Trade accounts receivable, net (Note 4) | Loans and receivables | | 178,585 | 200,537 | 178,585 | 200,537 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 96,535 | 144,050 | 96,535 | 144,050 |
| Total financial assets | | | 13,645,002 | 13,449,995 | 13,645,002 | 13,449,995 |
| Financial Liabilities | | | | | | |
| Current | | | | | | |
| Trade accounts payable, net (Note 14) | Amortized cost | | 7,622,860 | 7,539,395 | 7,622,860 | 7,539,395 |

| | | | | | | |
|--|---|---------|-------------------|-------------------|-------------------|-------------------|
| Loans, financing and finance lease (Note 19) | Amortized cost | | 1,123,488 | 1,256,147 | 1,227,765 | 1,363,539 |
| Loans, financing and finance lease (Note 19) | Measured at fair value through profit or loss | Level 2 | 869,920 | 1,286,828 | 402,427 | 1,307,310 |
| Debentures (Note 19) | Amortized cost | | 1,413,377 | 2,120,197 | 1,360,845 | 2,242,291 |
| Debentures (Note 19) | Measured at fair value through profit or loss | Level 2 | 1,461 | 307 | 1,514 | 1,412 |
| Derivative transactions (Note 30) | Measured at fair value through profit or loss | Level 2 | 3,429 | 4,111 | 3,429 | 4,111 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 139,180 | 179,101 | 139,180 | 179,101 |
| Non-current | | | | | | |
| Trade accounts payable, net (Note 14) | Amortized cost | | - | 71,907 | - | 71,907 |
| Loans, financing and finance lease (Note 19) | Amortized cost | | 1,462,716 | 1,837,077 | 1,400,063 | 1,668,524 |
| Loans, financing and finance lease (Note 19) | Measured at fair value through profit or loss | Level 2 | 638,012 | 874,982 | 616,965 | 822,818 |
| Contingent consideration (Note 19) | Measured at fair value through profit or loss | Level 2 | 440,396 | 414,733 | 440,396 | 414,733 |
| Debentures (Note 19) | Amortized cost | | 2,067,609 | 1,396,813 | 1,893,315 | 1,260,814 |
| Debentures (Note 19) | Measured at fair value through profit or loss | Level 2 | 39,644 | 36,990 | 38,343 | 34,124 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 15,292 | 1,404 | 15,292 | 1,404 |
| Total financial liabilities | | | 15,837,384 | 17,019,992 | 15,162,394 | 16,911,483 |

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| | Classification by category | Fair value hierarchy | Consolidated Book value | | Fair value | |
|--|---|----------------------|-------------------------|-------------------|-------------------|-------------------|
| | | | 09/30/17 | 12/31/16 | 09/30/17 | 12/31/16 |
| Financial Assets | | | | | | |
| Current | | | | | | |
| Cash and cash equivalents (Note 3) | Amortized cost | | 5,571,056 | 5,105,110 | 5,571,056 | 5,105,110 |
| Trade accounts receivable, net (Note 4) | Loans and receivables | | 8,791,035 | 8,701,688 | 8,791,035 | 8,701,688 |
| Derivative transactions (Note 30) | Measured at fair value through profit or loss | Level 2 | 8,797 | 3,979 | 8,797 | 3,979 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 71,699 | 64,964 | 71,699 | 64,964 |
| Non-current | | | | | | |
| Short-term investments pledged as collateral | Amortized cost | | 85,295 | 78,166 | 85,295 | 78,166 |
| Trade accounts receivable, net (Note 4) | Loans and receivables | | 290,505 | 305,411 | 290,505 | 305,411 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 96,535 | 144,050 | 96,535 | 144,050 |
| Total financial assets | | | 14,914,922 | 14,403,368 | 14,914,922 | 14,403,368 |
| Financial Liabilities | | | | | | |
| Current | | | | | | |
| Trade accounts payable (Note 14) | Amortized cost | | 7,290,613 | 7,611,246 | 7,290,613 | 7,611,246 |

| | | | | | | |
|--|---|---------|-------------------|-------------------|-------------------|-------------------|
| Loans, financing and finance lease (Note 19) | Amortized cost | | 1,123,488 | 1,256,147 | 1,227,765 | 1,363,539 |
| Loans, financing and finance lease (Note 19) | Measured at fair value through profit or loss | Level 2 | 869,920 | 1,286,828 | 402,427 | 1,307,310 |
| Debentures (Note 19) | Amortized cost | | 1,413,377 | 2,120,197 | 1,360,845 | 2,242,291 |
| Debentures (Note 19) | Measured at fair value through profit or loss | Level 2 | 1,461 | 307 | 1,514 | 1,412 |
| Derivative transactions (Note 30) | Measured at fair value through profit or loss | Level 2 | 3,430 | 4,111 | 3,430 | 4,111 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 139,472 | 179,101 | 139,472 | 179,101 |
| Non-current | | | | | | |
| Trade accounts payable (Note 14) | Amortized cost | | - | 71,907 | - | 71,907 |
| Loans, financing and finance lease (Note 19) | Amortized cost | | 1,462,716 | 1,837,077 | 1,400,063 | 1,668,524 |
| Loans, financing and finance lease (Note 19) | Measured at fair value through profit or loss | Level 2 | 638,012 | 874,982 | 616,965 | 822,818 |
| Debentures (Note 19) | Amortized cost | | 2,067,609 | 1,396,813 | 1,893,315 | 1,260,814 |
| Debentures (Note 19) | Measured at fair value through profit or loss | Level 2 | 39,644 | 36,990 | 38,343 | 34,124 |
| Contingent consideration (Note 19) | Measured at fair value through profit or loss | Level 2 | 440,396 | 414,733 | 440,396 | 414,733 |
| Derivative transactions (Note 30) | Hedges (economic) | Level 2 | 15,292 | 1,404 | 15,292 | 1,404 |
| | | | 15,505,430 | 17,091,843 | 14,830,440 | 16,983,334 |

c) Capital management

The purpose of the Company's capital management is to ensure maintenance of a high credit rating with 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, raise new loans, issue debentures and contract derivatives. For the quarter ended September 30, 2017, 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.

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

| | Consolidated | |
|--|------------------|------------------|
| | 09.30.17 | 12.31.16 |
| Cash and cash equivalents | 5,571,056 | 5,105,110 |
| Loans, financing, debentures, financial lease and contingent consideration | (8,056,623) | (9,224,074) |
| Derivative transactions, net | 18,837 | 28,377 |
| Short-term investment pledged as collateral | 11,631 | 10,773 |
| Asset guarantor of contingent consideration | 440,396 | 414,733 |
| Net debt | 2,014,703 | 3,665,081 |
| Net equity | 69,512,082 | 69,244,419 |
| Net debt-to-equity ratio | 2.90% | 5.29% |

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

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

At September 30, 2017, 10.4% of financial debt was foreign-currency denominated (14.0% at December 31, 2016). 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\$839,682 and R\$1,287,864 at September 30, 2017 and December 31, 2016, 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\$18,181 thousand receivable and €14,035 thousand receivable at September 30, 2017 and US\$17,293 thousand and €5,695 thousand payable at December 31, 2016) 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. During the year 2016 and for the quarter ended March 30, 2017, the TJLP was 7.5%. In the third quarter of 2017, the TJLP remained at 7.0%.

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.

To reduce exposure to the variable interest rate (CDI), the Company and its subsidiaries invested their cash equivalents of R\$5,480,329 at September 30, 2017 (R\$4,906,741 at December 31, 2016), mostly in short-term CDI-based financial investments (Bank Deposit Certificates). The carrying amounts of these instruments approximate their fair values, since they may be redeemed in the short term.

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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 and its subsidiaries structure the maturity dates of non-derivative financial contracts, as shown in Note 19, and their respective derivatives, as shown in the schedule of payments disclosed in this note, to avoid affecting their liquidity.

The Company's cash flow and liquidity and those of its subsidiaries are managed on a daily basis by the departments in charge of ensuring 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 the related agreements:

| At 09.30.17 | Less than one year | From 1 to 2 years | From 2 to 5 years | Over 5 years |
|---|-----------------------|----------------------|----------------------|----------------|
| Trade accounts payable (Note 14) | 7,290,613 | - | - | - |
| Loans, financing and finance lease (Note 19) | 1,993,408 | 938,001 | 895,289 | 267,438 |
| Contingent consideration (Note 19) | - | - | - | 440,396 |
| Debentures (Note 19) | 1,414,838 | 23,813 | 2,083,440 | - |
| Derivative transactions (Note 30) | 142,902 | 234 | - | 15,058 |
| Total | 10,841,761 | 962,048 | 2,978,729 | 722,892 |

| At 12.31.16 | Less than one year | From 1 to 2 years | From 2 to 5 years | Over 5 years |
|----------------------------------|-----------------------|----------------------|----------------------|--------------|
| Trade accounts payable (Note 14) | 7,611,246 | - | - | 71,907 |
| | 2,542,975 | 1,129,939 | 1,326,269 | 255,851 |

Loans, financing and finance lease
(Note 19)

| | | | | |
|------------------------------------|-------------------|------------------|------------------|----------------|
| Contingent consideration (Note 19) | - | - | - | 414,733 |
| Debentures (Note 19) | 2,120,504 | 1,355,683 | 78,120 | - |
| Derivative transactions (Note 30) | 183,212 | 1,185 | 97 | 122 |
| Total | 12,457,937 | 2,486,807 | 1,404,486 | 742,613 |

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 telecommunications 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 counterparty and diversify this exposure across first tier financial institutions in accordance with the current credit policies of financial counterparties.

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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 significant costs, which include clean-up 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 known, 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. 9,605 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 provides for the hiring of outsourced service providers. These potential liabilities may involve labor claims by service providers which are treated as direct employees and claim joint liability resulting from overtime and occupational accidents. If we obtain unfavorable decisions with respect to a significant portion of these contingencies and if we have not recognized a provision for these risks, our financial position and results of operations may be adversely affected. In addition, if the labor authorities consider that outsourcing services involves core activities of the Company, this may be considered an employment relationship, which would significantly increase our costs and therefore subject the Company administrative and judicial proceedings and payment of fines to third parties.

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 September 30, 2017, 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\$1,033,944 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. 12846 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.

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 (Telefónica, 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.

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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 various non-cancellable operating agreements maturing on different dates, with monthly payments.

At September 30, 2017, the total amounts corresponding to the full period of the contracts were as follows:

| | Company | Consolidated |
|-------------------|-------------------|-------------------|
| Up to 1 year | 2,172,950 | 2,173,510 |
| From 1 to 5 years | 7,128,857 | 7,131,736 |
| Over five years | 5,173,915 | 5,174,117 |
| Total | 14,475,722 | 14,479,363 |

32) ADDITIONAL INFORMATION ON CASH FLOWS

The main financing transactions that do not involve cash of the Company refer to the acquisition of assets through finance leases. At September 30, 2017 and 2016, these transactions totaled R\$9,061 and R\$2,675, respectively.

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: November 3, 2017

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