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

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

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

For the month of June, 2018

Commission File Number: 001-14475

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

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

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

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

Form 20-F	X	Form 40-F	

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

Yes		No	X

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

Yes	No	X

TELEFÔNICA BRASIL S.A.

QUARTERLY INFORMATION

MARCH 31, 2018

(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders

Telefônica Brasil S.A.

Introduction

We have reviewed the accompanying parent company and consolidated interim accounting information of Telefônica Brasil S.A. ("Company"), included in the Quarterly Information Form (ITR) for the quarter ended March 31, 2018, comprising the balance sheet at that date and the statements of income and comprehensive income, changes in equity and cash flows for the quarter then ended, and a summary of significant accounting policies and other explanatory information.

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

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Reviews of Interim Financial Information (NBC TR 2410 - "Review of Interim Financial Information Performed by the

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

Conclusion on the parent company interim information

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

Conclusion on the consolidated interim information

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

Other matters

Statement of value added

We have also reviewed the parent company and consolidated statements of value added for the quarter ended March 31, 2018. These statements are the responsibility of the Company's management and are required to be presented in accordance with standards issued by the CVM applicable to the preparation of Quarterly Information (ITR) and are considered supplementary information under IFRS, which do not require the presentation of the statement of value added. These statements have been submitted to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they have not been prepared, in all material respects, in a manner consistent with the parent company and consolidated interim accounting information taken as a whole.

São Paulo, April 20, 2018

PricewaterhouseCoopers

Auditores Independentes

CRC 2SP000160/O-5

Estela Maris Vieira de Souza

Contadora CRC 1RS046957/O-3

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

(In thousands of reais)

		Company		Consolidated		
ASSETS	**Note**	**03.31.18**	**12.31.17**	**03.31.18**	**12.31.17**	**LI**
Current assets		**17,637,738**	**16,668,039**	**17,910,377**	**16,731,666**	**Cu**
Cash and cash equivalents	3	3,857,949	3,681,173	4,354,491	4,050,338	Pe
Trade accounts receivable	4	8,346,384	8,413,403	8,770,683	8,588,466	Tra
Inventories	5	486,209	324,711	510,641	348,755	Inc
Income and social contribution taxes recoverable	6	568,110	401,259	678,292	505,535	Ta
Taxes, charges and contributions recoverable	7	1,834,695	1,984,999	1,894,829	2,058,455	Div
Judicial deposits and garnishments	8	339,513	324,465	339,702	324,638	Pro
Prepaid expenses	9	888,066	425,298	912,036	446,439	De
Dividends and interest on equity	17	426,709	323,206	-	-	Lo
Derivative financial instruments	30	85,417	87,643	85,417	87,643	De
Other assets	10	804,686	701,882	364,286	321,397	De
						Ot
Non-current assets		**84,766,654**	**85,495,114**	**84,370,767**	**84,651,169**	
Long-term assets						**No**
Short-term investments pledged as collateral		87,558	81,472	87,569	81,486	Pe
Trade accounts receivable	4	174,863	167,682	285,780	273,888	Ta
Deferred taxes	6	-	-	398,918	371,408	De
Taxes, charges and contributions recoverable	7	784,001	740,104	787,492	743,285	Pro
Judicial deposits and garnishments	8	6,204,217	6,155,821	6,388,828	6,339,167	De
Prepaid expenses	9	75,390	21,684	75,768	23,116	Lo
Derivative financial instruments	30	65,915	76,762	65,915	76,762	De
Other assets	10	78,496	86,345	80,697	88,935	De
Investments	11	**1,534,127**	**1,949,276**	**102,167**	**98,902**	Ot
Property, plant and equipment	12	**33,007,854**	**33,112,532**	**33,113,946**	**33,222,316**	
Intangible assets	13	**42,754,233**	**43,103,436**	**42,983,687**	**43,331,904**	**TO**
						Eq
						Ca
						Ca
						Inc
						Ot
						Re
						Ad
TOTAL ASSETS		**102,404,392**	**102,163,153**	**102,281,144**	**101,382,835**	**TO**

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

(A fr

(In thousands of reais, except earnings per share)

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

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

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

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

2018

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

(In thousands of reais)

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

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

(In thousands in reais)

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

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

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

(In thousands in reais)

	Company	
	1st quarter of 2018	**1st quarter of 20**
Revenues	**12,892,800**	**14,154,1**
Sale of goods and services	12,692,576	14,198,8
Other revenues	556,231	282,5
Provision for impairment of trade accounts receivable	(356,007)	(327,2
Inputs acquired from third parties	**(4,527,130)**	**(5,442,1**
Cost of goods and products sold and services rendered	(2,381,462)	(3,133,4
Materials, electric energy, third-party services and other expenses	(2,148,244)	(2,309,9
Loss/recovery of assets	2,576	1,2
Gross value added	**8,365,670**	**8,711,9**
Withholdings	**(1,989,690)**	**(1,936,1**
Depreciation and amortization	(1,989,690)	(1,936,1
Net value added produced	**6,375,980**	**6,775,8**
Value added received in transfer	**818,158**	**687,4**
Equity pickup	567,928	161,8
Financial income	250,230	525,6
Total undistributed value added	**7,194,138**	**7,463,3**
Distribution of value added	**(7,194,138)**	**(7,463,3**
Personnel, social charges and benefits	(936,418)	(1,029,3
Direct compensation	(629,270)	(696,8
Benefits	(260,518)	(276,0
Government Severance Indemnity Fund for Employees (FGTS)	(46,630)	(56,4
Taxes, charges and contributions	(3,975,023)	(3,935,8
Federal	(1,176,671)	(1,268,4
State	(2,756,653)	(2,641,4
Local	(41,699)	(25,9
Debt remuneration	(1,184,678)	(1,501,9
Interest	(435,840)	(819,4
Rental	(748,838)	(682,5
Equity remuneration	(1,098,019)	(996,1
Retained profit	(1,098,019)	(996,1

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

1) OPERATIONS

a) Background information

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

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

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

b) Operations

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

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

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

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

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

c) Acquisition of a Wholly-Owned Subsidiary - 2017

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

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

a) Statement of compliance

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

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

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

b) Basis of preparation and presentation

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

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

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

The Board of Directors authorized the issue of these individual and consolidated financial statements at the meeting held on April 20, 2018.

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

The information in the notes to the financial statements that did not significantly change or present irrelevant disclosures as compared to December 31, 2017 were not fully repeated in these quarterly financial statements. In the meantime, the Company selected and included information to explain the main events and transactions occurring during the three-month period ended March 31, 2018, in order to understand the changes in the Company's financial position and performance.

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

- Note 1 - Operations
- Note 2 - Basis of Preparation and Presentation of Financial Statements
- Note 3 - Summary of Significant Accounting Practices
- Note 13 - Intangible Assets, Net

- Note 22 - Equity

Page 11

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

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

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

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

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

IFRS 15 Revenues from Contracts with Customers

With the adoption of IFRS 15, for bundled packages that combine multiple wireline, wireless, data, internet or television goods or services, the total revenue is now allocated to each performance obligation based on their standalone selling prices in relation to the total consideration of the package and will be recognized when (or as) the obligation is satisfied, regardless of whether there are undelivered items. Consequently, when bundles include a discount on equipment, there is an increase in revenues recognized from the sale of handsets and other equipment, in detriment of ongoing service revenue over subsequent periods. To the extent that the packages are marketed at a discount, the difference between the revenue from the sale of equipment and the consideration received from the customer upfront is recognised as a *contract asset* in the statement of financial position.

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

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

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

The Company adopted the retrospective method modified with the cumulative effect of the initial application recognized as an adjustment to the opening balance of retained earnings on the date of the initial adoption. Therefore, comparisons of previous periods will not be restated. To facilitate the understanding and comparability of information, the Company discloses in Note 33 the consolidated income statement for the three-month period ended March 31, 2018, excluding the effects of adopting IFRS 15.

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

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

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

The following table shows the changes in contractual assets and liabilities and incremental costs for the three-month period ended March 31, 2018.

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

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

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

IFRS 9 Financial Instruments

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

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

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

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

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

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

Standards and amendments		**Mandatory application: annual periods beginning on or after**
Improvements to IFRS Standards	2015-2017 Cycle	January 1, 2019
IFRS 16	Leases	January 1, 2019
IFRIC23	Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation	January 1, 2019
Amendments to IAS 28	Long-term Interest in associates and Joint Ventures	January 1, 2019

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

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

IFRS 16 Leases

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

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

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

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

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

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

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

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

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

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

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

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

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

3) CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	03/31/18	12/31/17	03/31/18	12/31/17
Cash and banks	87,270	114,556	88,955	117,799
Short-term investments	3,770,679	3,566,617	4,265,536	3,932,539
Total	**3,857,949**	**3,681,173**	**4,354,491**	**4,050,338**

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

4) TRADE ACCOUNTS RECEIVABLE

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

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

Consolidated balances of non-current trade accounts receivable include:

- R$128,067 at March 31, 2018 (R$122,651 at December 31, 2017), relating to the business model of resale of goods to legal entities, receivable within 24 months. At March 31, 2018, the impact of the present-value adjustment was R$11,536 (R$16,011 at December 31, 2017).

- R$46,796, at March 31, 2018 (R$45,031, at December 31, 2017), net of the present value adjustment relating to the portion of accounts receivable arising from negotiations on the bankruptcy process of companies from the OI group. At March 31, 2018, the impact of the present-value adjustment was R$13,770 (R$15,535 at December 31, 2017).

- R$110,917, at March 31, 2018 (R$106,206, at December 31, 2017), relating to "Soluciona TI", traded by TData, which consists of lease of IT equipment to small and medium companies and receipt of fixed installments over the contractual term. Considering the contractual terms, this product was classified as finance lease. At March 31, 2018, the impact of the present-value adjustment was R$32,198 (R$33,614 at December 31, 2017).

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

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

At March 31, 2018, the aging list of gross trade accounts receivable relating to “Soluciona TI” product is as follows:

	Consolidated	
	Nominal amount receivable	Present value of accounts receivable
Falling due within one year	233,164	233,164
Falling due between one year and five years	203,346	171,148
Total	**436,510**	**404,312**

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

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

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

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

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

	Company	Consolidated
Balance at 12/31/16	**(1,004,512)**	**(1,399,895)**
Supplement to estimated losses (Note 24)	(396,175)	(430,932)
Reversal of estimated losses (Note 24)	68,927	73,189
Write-off due to use	258,506	266,012
Balance at 03/31/17	**(1,073,254)**	**(1,491,626)**
Supplement to estimated losses	(1,474,263)	(1,563,837)
Reversal of estimated losses	396,426	440,565
Write-off due to use	941,722	1,190,146
Business combinations (Note 1.c)	-	(8,719)
Balance at 12/31/17	**(1,209,369)**	**(1,433,471)**
Initial adoption IFRS 9 on 01.01.18	(332,127)	(364,456)
Supplement to estimated losses (Note 24)	(476,176)	(599,537)
Reversal of estimated losses (Note 24)	120,169	201,457
Write-off due to use	526,976	541,352
Balance at 03/31/18	**(1,370,527)**	**(1,654,655)**

5) INVENTORIES

	Company		Consolidated	
	03/31/18	12/31/17	03/31/18	12/31/17
Materials for resale (1)	450,169	302,235	473,588	325,850
Materials for consumption	62,844	55,448	64,887	57,740
Other inventories	7,918	7,822	7,918	7,822
Gross total	**520,931**	**365,505**	**546,393**	**391,412**
Estimated losses from impairment or obsolescence (2)	(34,722)	(40,794)	(35,752)	(42,657)
Total	**486,209**	**324,711**	**510,641**	**348,755**

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

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

6) INCOME AND SOCIAL CONTRIBUTION TAXES

a) <u>Income and Social Contribution taxes recoverable</u>

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

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

b) Income and Social Contribution taxes payable

	Consolidated	
	03/31/18	12/31/17
Income taxes payable	221,332	3,267
Social contribution taxes payable	80,408	1,212
Total	**301,740**	**4,479**

c) Deferred taxes

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

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

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

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

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

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

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

Represented in the balance sheet as follows:		
Deferred tax assets	**27,497**	**133,438**
Deferred tax liabilities	**-**	**(249,787)**

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

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

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

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

At March 31, 2018, deferred tax credits (income and social contribution tax losses) were not recognized in indirect subsidiaries' (Innoweb and TGLog) accounting records, in the amount of R$12,385 (R$11,938 at December 31, 2017), as it is not probable that future taxable profits will be available for these subsidiaries to benefit from such tax credits.

d) Reconciliation of income tax and social contribution expense

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

Reconciliation of the reported tax expense and the amounts calculated by applying the statutory tax rate of 34% (income tax of 25% and social contribution tax of 9%) is shown in the table below for

the three-month period ended March 31, 2018 and 2017.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

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

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

7) TAXES, CHARGES AND CONTRIBUTIONS RECOVERABLE

	Company		Consolidated	
	03/31/18	12/31/17	03/31/18	12/31/17
State VAT (ICMS) (1)	2,464,001	2,438,272	2,473,254	2,450,856
Withholding taxes and contributions (2)	77,081	212,264	100,288	238,355
PIS and COFINS	69,333	66,335	83,150	85,098
INSS, ISS and other taxes	8,281	8,232	25,629	27,431
Total	**2,618,696**	**2,725,103**	**2,682,321**	**2,801,740**
Current	1,834,695	1,984,999	1,894,829	2,058,455
Non-current	784,001	740,104	787,492	743,285

(1) This includes credits of ICMS arising from the acquisition of property and equipment (subject to offsetting in 48 months); requests for refund of ICMS, which was paid under invoices that were cancelled subsequently; for the rendering of services; tax substitution; and tax rate difference; among others. Non-current consolidated amounts include credits arising from the acquisition of property and equipment of R$455,719 and R$423,588 on March 31, 2018 and December 31, 2017, respectively.

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

8) JUDICIAL DEPOSITS AND GARNISHMENTS

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

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

On March 31, 2018, the Company and its subsidiaries had a number of tax-related judicial deposits in the consolidated amount of R$4,311,043 (R$4,230,917 at December 31, 2017). In Note 18, we provide further details on issues arising from the most significant judicial deposits.

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

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

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

- Contribution to Empresa Brasil de Comunicação (EBC)

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

- Telecommunications Inspection Fund (FISTEL)

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

9) PREPAID EXPENSES

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

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

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

10) OTHER ASSETS

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

11) INVESTMENTS

a) Information on investees

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

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2018

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

	03/31/18					12/31/17				
	Consolidated wholly-owned subsidiaries		Jointly-controlled subsidiaries			Consolidated wholly-owned subsidiaries		Jointly-controlled subsidia		
	TData	POP	Aliança	Cia AIX	Cia ACT	TData	POP	Aliança	Cia AIX	Cia
Equity interest	**100.00%**	**100.00%**	**50.00%**	**50.00%**	**50.00%**	**100.00%**	**100.00%**	**50.00%**	**50.00%**	**50**
Summary of balance sheets:										
Current assets	2,782,471	36,554	172,882	23,805	17	2,928,721	33,566	167,540	22,431	
Non-current assets	771,009	53,254	-	12,889	-	749,694	52,761	-	13,410	
Total assets	**3,553,480**	**89,808**	**172,882**	**36,694**	**17**	**3,678,415**	**86,327**	**167,540**	**35,841**	
Current liabilities	2,186,611	48,752	72	3,898	1	1,893,271	47,337	58	4,084	
Non-current liabilities	188,008	15	-	4,688	-	185,794	24	-	4,811	
Equity	1,178,861	41,041	172,810	28,108	16	1,599,350	38,966	167,482	26,946	
Total liabilities and equity	**3,553,480**	**89,808**	**172,882**	**36,694**	**17**	**3,678,415**	**86,327**	**167,540**	**35,841**	
Investment Book value	**1,178,861**	**41,041**	**86,405**	**14,054**	**8**	**1,599,350**	**38,966**	**83,741**	**13,473**	

1st quarter of 2018 1st quarter of 2017

	Consolidated wholly-owned subsidiaries		Jointly-controlled subsidiaries	Consolidated wholly-owned subsidiaries	Jointly-controlled subsidiaries
Summary of Income Statements:	TData	POP	Aliança		