

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

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

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

**For the month of November, 2018**

**Commission File Number: 001-14475**  

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**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)**  

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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

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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

**TELEFÔNICA BRASIL S.A.**

**QUARTERLY INFORMATION**

**SEPTEMBER 30, 2018**





(A free translation of the original in Portuguese)

*Independent auditor's report*

**Report on review of quarterly information**

To the Board of Directors and Shareholders of

Telefônica Brasil S.A.

**Introduction**

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

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

**Scope of review**

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

### **Conclusion on the interim information**

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

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**Other matters**

**Statements of value added**

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

São Paulo, October 26, 2018

PricewaterhouseCoopers

Auditores Independentes

CRC 2SP000160/O-5

Estela Maris Vieira de Souza

Contadora CRC 1RS046957/O-3



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

(In thousands of reais)

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

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

<b>TOTAL ASSETS</b>	<b>104,783,351</b>	<b>102,163,153</b>	<b>104,334,322</b>	<b>101,382,835</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>104,783,351</b>	<b>1</b>
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**TELEFÔNICA BRASIL S.A.****Income Statements****Three and nine-month periods ended September 30, 2018 and 2017****(In thousands of reais, except earnings per share)**

		Company			
		Three-month periods		Nine-month periods ended	
	Note	ended 09.30.18	09.30.17	09.30.18	09.30.17
<b>Net operating revenue</b>	23	<b>9,582,079</b>	<b>9,631,494</b>	<b>27,744,368</b>	<b>29,764,368</b>
Cost of sales and services	24	(4,786,097)	(4,751,844)	(14,439,206)	(14,327,844)
<b>Gross profit</b>		<b>4,795,982</b>	<b>4,879,650</b>	<b>13,305,162</b>	<b>15,436,524</b>
<b>Operating income (expenses)</b>		<b>(2,404,190)</b>	<b>(3,922,622)</b>	<b>(7,614,988)</b>	<b>(11,940,622)</b>
Selling expenses	24	(2,916,086)	(3,199,016)	(8,992,970)	(9,643,016)
General and administrative expenses	24	(603,334)	(601,412)	(1,816,451)	(1,803,412)
Other operating income	25	1,643,421	87,729	4,338,824	26,729
Other operating expenses	25	(528,191)	(209,923)	(1,144,391)	(764,391)
<b>Operating profit</b>		<b>2,391,792</b>	<b>957,028</b>	<b>5,690,174</b>	<b>3,490,174</b>
Financial income	26	1,343,614	451,807	3,591,085	1,423,614
Financial expenses	26	(709,216)	(651,613)	(1,723,061)	(2,223,061)
Equity in results of investees	11	237,599	654,357	1,384,419	1,073,599
<b>Income before taxes</b>		<b>3,263,789</b>	<b>1,411,579</b>	<b>8,942,617</b>	<b>3,770,174</b>
Income and social contribution taxes	6	(86,525)	(188,863)	(1,501,037)	(684,863)
<b>Net income for the period</b>		<b>3,177,264</b>	<b>1,222,716</b>	<b>7,441,580</b>	<b>3,085,311</b>
Basic and diluted earnings per common share (in R\$)	22	1.76	0.68	4.13	1.76
Basic and diluted earnings per preferred share (in R\$)	22	1.94	0.75	4.55	1.94

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

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

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

(In thousands of reais)

		Company		
		Three-month periods		
		ended		
	Note	09.30.18	09.30.17	09.30.16
<b>Net income for the period</b>		<b>3,177,264</b>	<b>1,222,716</b>	<b>7,444,111</b>
<b>Other comprehensive income (losses) that may be reclassified into income (losses) in subsequent periods</b>		<b>2,702</b>	<b>(3,979)</b>	<b>1,000</b>
Gains (losses) on derivative financial instruments	30	(490)	(5,063)	(1,000)
Taxes		166	1,721	-
Cumulative Translation Adjustments (CTA) on transactions in foreign currency	11	3,049	(637)	1,000
Interest in comprehensive income of subsidiaries	11	(23)	-	-
<b>Other comprehensive income (losses) that can not be reclassified into income (losses) in subsequent periods</b>		<b>(169)</b>	<b>44</b>	<b>1,000</b>
Unrealized gains on investments available for sale	11	(257)	66	-
Taxes		88	(22)	-
<b>Other comprehensive income</b>		<b>2,533</b>	<b>(3,935)</b>	<b>1,000</b>
<b>Comprehensive income for the period - net of taxes</b>		<b>3,179,797</b>	<b>1,218,781</b>	<b>7,445,111</b>

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

(In thousands in reais)

(A free translation  
original in Portuguese)

	<b>Company</b>		<b>Consolidated</b>	
	<b>09.30.18</b>	<b>09.30.17</b>	<b>09.30.18</b>	
<b><u>Cash flows from operating activities</u></b>				
<b>Income before taxes</b>	<b>8,942,617</b>	<b>3,776,670</b>	<b>9,679,819</b>	<b>4,914,141</b>
<b>Ajustement for:</b>				
Depreciation and amortization	6,019,692	5,842,396	6,045,916	5,842,396
Foreign exchange on loans and derivative financial instruments	37,579	46,670	39,176	39,176
Monetary assets and liabilities	614,751	476,343	614,356	614,356
Equity pickup	(1,384,419)	(1,079,141)	4,914	4,914
Loss on write-off/sale of assets	4,453	17,512	4,777	4,777
Provision for impairment - accounts receivable	1,011,896	1,037,677	1,168,936	1,168,936
Change in liability provisions	(272,570)	176,907	(235,954)	(235,954)
Write-off and reversals for impairment - inventories	(31,461)	(45,899)	(33,402)	(33,402)
Pension plans and other post-retirement benefits	35,593	23,117	36,860	36,860
Provisions for tax, civil, labor and regulatory contingencies	983,676	640,383	995,695	995,695
Interest expense	380,371	770,991	380,371	380,371
Others	(3,210)	10,383	(3,464)	(3,464)
<b>Changes in assets and liabilities</b>				
Trade accounts receivable	(1,340,124)	(805,214)	(1,509,231)	(1,509,231)
Inventories	(65,764)	63,800	(77,156)	(77,156)
Taxes recoverable	(5,985,851)	(269,874)	(5,863,914)	(5,863,914)
Prepaid expenses	(83,143)	(62,142)	(80,719)	(80,719)
Other assets	270,279	(79,749)	(14,304)	(14,304)
Personnel, social charges and benefits	31,804	43,226	39,861	39,861
Trade accounts payable	652,129	298,318	987,401	987,401
Taxes, charges and contributions	(33,764)	494,612	(74,001)	(74,001)
Provisions for tax, civil, labor and regulatory contingencies	(3,639,390)	(804,743)	(3,651,633)	(3,651,633)
Other liabilities	(172,733)	(892,876)	(164,089)	(164,089)
	<b>(2,970,206)</b>	<b>5,902,697</b>	<b>(1,389,604)</b>	<b>6,292,301</b>
<b>Cash generated from operations</b>	<b>5,972,411</b>	<b>9,679,367</b>	<b>8,290,215</b>	<b>10,184,442</b>
Interest paid	(410,585)	(695,802)	(410,585)	(695,802)
Income and social contribution taxes paid	(11,841)	-	(529,039)	(529,039)
<b>Net cash (used in) generated by operating activities</b>	<b>5,549,985</b>	<b>8,983,565</b>	<b>7,350,591</b>	<b>9,959,595</b>

**Cash flows from investing activities**

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



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

(A free translation of the original  
in Portuguese)

(In thousands in reais)

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

Personnel, social charges  
and benefits

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

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(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and nine-month periods ended September 30, 2018**

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

**1) OPERATIONS**

**a) Background information**

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

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

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

**b) Operations**

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

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

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

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

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

**c) Acquisition of a Wholly-Owned Subsidiary - 2017**

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

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**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and nine-month periods ended September 30, 2018**

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

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

**a) Statement of compliance**

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

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

**b) Basis of preparation and presentation**

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

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

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

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

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

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

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

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



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**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and nine-month periods ended September 30, 2018**

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

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

**Standards and amendments**

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

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

**IFRS 9 Financial Instruments**

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



liabilities designated at fair value through profit or loss.

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

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

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

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

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

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

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

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

**IFRS 15 Revenues from Contracts with Customers**

With the adoption of IFRS 15, for bundled packages that combine multiple wireline, wireless, data, internet or television goods or services, the total revenue is now allocated to each performance obligation based on their standalone selling prices in relation to the total consideration of the package and will be recognized when (or as) the obligation is satisfied, regardless of whether there are undelivered items. Consequently, when bundles include a discount on equipment, there is an increase in revenues recognized from the sale

of handsets and other equipment, in detriment of ongoing service revenue over subsequent periods. To the extent that the packages are marketed at a discount, the difference between the revenue from the sale of equipment and the consideration received from the customer upfront is recognised as a *contract asset* in the statement of financial position.

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

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

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

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

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

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

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

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

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

	Contract assets (1)			Contractual liabilities (3)		
	Contract assets, gross	Provision for losses	Contract assets, net	Contractual liabilities	Reclassification (Note 19)	Contractual liabilities
<b>Initial adoption on 01.01.18</b>	<b>193,675</b>	<b>(33,196)</b>	<b>160,479</b>	<b>(178,897)</b>	<b>-</b>	<b>(178,897)</b>
<b>Reclassification on 01.01.18</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(383,688)</b>	<b>(383,688)</b>
Additions	460,903	(7,523)	453,380	(162,138)	(5,353,375)	(5,515,513)
Write-offs, net	(417,941)	-	(417,941)	152,059	5,388,551	5,540,660
<b>Balances as of 09.30.18</b>	<b>236,637</b>	<b>(40,719)</b>	<b>195,918</b>	<b>(188,976)</b>	<b>(348,512)</b>	<b>(537,478)</b>
Current	236,637	(40,719)	195,918	(27,211)	(332,764)	(359,977)
Non-current	-	-	-	(161,765)	(15,748)	(177,513)

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

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

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

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

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

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and nine-month periods ended September 30, 2018**

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

IFRS 16 Leases

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

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

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

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

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

**c) Basis of consolidation**

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

(A free translation of the original in Portuguese)

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

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

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

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

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

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



clients.

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

#### **d) Reclassification of comparative amounts**

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

### **3) CASH AND CASH EQUIVALENTS**

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

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



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

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

Consolidated balances of non-current trade accounts receivable include:

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

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

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



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

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

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

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

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

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

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

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

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

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





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

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

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

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

**6) INCOME AND SOCIAL CONTRIBUTION TAXES**

a) **Income and Social Contribution taxes recoverable**

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

Company