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

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

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

For the month of November, 2017

Commission File Number: 001-14475

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

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

Av. Eng° Luís Carlos Berrini, 1376 - 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

(A free translation of the original in Portuguese)

Telefônica Brasil S.A.

Quarterly Information (ITR)

at September 30, 2017

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

(A free translation of the original in Portuguese)

Report on review of quarterly information

To the Board of Directors and Stockholders

Telefônica Brasil S.A.

Introduction

We have reviewed the accompanying parent company and consolidated interim accounting information of Telefônica Brasil S.A. ("Company"), included in the Quarterly Information Form (ITR) for the quarter ended September 30, 2017, comprising the balance sheet at that date and the statements of income and comprehensive income for the quarter and nine-month periods then ended, and changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory information.

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

Scope of review

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

Conclusion on the parent company interim information

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

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Conclusion on the consolidated interim information

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

Other matters

Statement of value added

We have also reviewed the parent company and consolidated statements of value added for the nine-month period ended September 30, 2017. These statements are the responsibility of the Company's management and are required to be presented in accordance with standards issued by the CVM applicable to the preparation of Quarterly Information (ITR) and are considered supplementary information under IFRS, which do not require the presentation of the statement of value added. These statements have been submitted to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they have not been prepared, in all material respects, in a manner consistent with the parent company and consolidated interim accounting information taken as a whole.

Audit and review of prior-year information

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

São Paulo, October 24, 2017

PricewaterhouseCoopers

Auditores Independentes

CRC 2SP000160/O-5

Estela Maris Vieira de Souza

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

(A free translation of the original in Portuguese)

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

(In thousands of reais) (A free

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

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

(A free translation of the original in Portuguese)

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

(In thousands of reais, except earnings per share) (A free translation of the or

		Company				Consolidated		
		Three-month periods ended		Nine-month periods ended		Three-month periods ended		Nin
	Note	09.30.17	09.30.16	09.30.17	09.30.16	09.30.17	09.30.16	09
Net operating revenue	22	**9,631,494**	**10,111,110**	**29,765,720**	**28,381,864**	**10,885,949**	**10,693,365**	**32,17**
Cost of sales and services	23	(4,751,844)	(4,965,161)	(14,327,557)	(14,129,562)	(5,095,718)	(5,272,970)	(15,17
Gross profit		**4,879,650**	**5,145,949**	**15,438,163**	**14,252,302**	**5,790,231**	**5,420,395**	**17,00**
Operating income (expenses)		**(3,922,622)**	**(3,950,088)**	**(11,946,475)**	**0,606,356)**	**(4,075,283)**	**(3,982,667)**	**(12,14**
Selling expenses	23	(3,199,016)	(3,124,939)	(9,643,209)	(8,800,115)	(3,324,498)	(3,156,618)	(9,81
General and administrative expenses	23	(601,412)	(677,987)	(1,805,889)	(1,896,866)	(626,039)	(676,739)	(1,83
Other operating income	24	87,729	109,163	267,286	806,809	88,450	109,979	27
Other operating expenses	24	(209,923)	(256,325)	(764,663)	(716,184)	(213,196)	(259,289)	(76
Operating profit		**957,028**	**1,195,861**	**3,491,688**	**3,645,946**	**1,714,948**	**1,437,728**	**4,85**
Financial income	25	451,807	553,041	1,428,874	1,999,751	478,441	579,518	1,51
Financial expenses	25	(651,613)	(872,304)	(2,223,033)	(2,943,720)	(648,953)	(875,856)	(2,23
	10							

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

(A free translation of the original in Portuguese)

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

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

Balances at September 30, 2017	**63,571,416**	**-**

(A free translation of the original in Portuguese)

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

(In thousands of reais)

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

(A free translation of the original in Portuguese)

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

(In thousands of *Reais*) (A free

	Company		
	09.30.17	**09.30.16**	
Operating activities			
Expenses (revenues) not representing changes in cash:			
Income before taxes	3,776,670	3,325,147	4
Depreciation and amortization	5,842,396	5,355,847	5
Foreign exchange gains on loans and derivative financial instruments	46,670	33,785	
Monetary losses	476,343	444,315	
Equity in results of investees	(1,079,141)	(623,170)	
Losses (gains) on write-off/sale of goods	17,512	(444,501)	
Provision for impairment - accounts receivable	1,037,677	900,456	1
Provision of trade accounts payable	176,907	488,222	
Write-off and reversals for impairment - inventories	(45,899)	(25,237)	
Pension plans and other post-retirement benefits	23,117	(3,646)	
Provisions for tax, civil, labor and regulatory contingencies	640,383	713,451	
Interest expense	770,991	791,998	
Other	10,383	(40,976)	
Changes in assets and liabilities			
Trade accounts receivable	(805,214)	(995,452)	(1
Inventories	63,800	130,177	
Taxes recoverable	(269,874)	(191,101)	
Prepaid expenses	(62,142)	(35,009)	
Other current assets	(52,717)	114,698	
Other noncurrent assets	(27,032)	38,179	
Personnel, social charges and benefits	43,226	70,105	
Trade accounts payable	298,318	(1,190,760)	
Taxes, charges and contributions	494,612	(43,163)	
Other current liabilities	(1,292,664)	(385,542)	(1
Other non-current liabilities	(1,060,039)	(619,652)	(1
	9,024,283	**7,808,171**	**10**
Interest paid	(695,802)	(703,415)	

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

(A free translation of the original in Portuguese)

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

(A free tra

(In thousands in reais)

	Company		
	09.30.17	**09.30.16**	**09**
Revenues	**41,620,108**	**38,963,878**	**44,29**
Sale of goods and services	41,795,634	39,127,923	44,51
Other revenues	862,151	736,411	89
Provision for impairment of trade accounts receivable	(1,037,677)	(900,456)	(1,108
Inputs acquired from third parties	**(14,180,624)**	**(13,534,013)**	**(15,039**
Cost of goods and products sold and services rendered	(7,066,689)	(7,353,579)	(7,913
Materials, electric energy, third-party services and other expenses	(7,111,989)	(6,638,664)	(7,120
Assets (loss) recovery	(1,946)	458,230	(4
Gross value added	**27,439,484**	**25,429,865**	**29,25**
Retentions	**(5,842,396)**	**(5,355,847)**	**(5,862**
Depreciation and amortization	(5,842,396)	(5,355,847)	(5,862
Net value added produced	**21,597,088**	**20,074,018**	**23,39**
Value added received in transfer	**2,508,015**	**2,622,921**	**1,51**
Equity in results of investees	1,079,141	623,170	
Financial income	1,428,874	1,999,751	1,51
Total value added	**24,105,103**	**22,696,939**	**24,90**
Distribution of value added	**(24,105,103)**	**(22,696,939)**	**(24,909**
Personnel, social charges and benefits	(2,880,051)	(2,873,617)	(3,043
Direct compensation	(1,944,017)	(2,005,797)	(2,048
Benefits	(788,846)	(731,294)	(840
FGTS (unemployment compensation fund)	(147,188)	(136,526)	(155
Taxes, charges and contributions	(13,827,152)	(12,216,168)	(14,447
Federal	(3,857,898)	(3,495,188)	(4,447
State	(9,905,574)	(8,663,319)	(9,917
Municipal	(63,680)	(57,661)	(83

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

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

1) THE COMPANY AND ITS OPERATIONS

a) Background information

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

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

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

b) Operations

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

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

In accordance with the authorization terms for the usage of frequencies associated with SMP, in every two years after the first renewal of these agreements, the Company shall pay a fee equivalent to 2% of its prior-year SMP revenue, net of applicable taxes and social contribution taxes (Note 20), and in the 15th year the Company will pay 1% of its prior-year revenue. The calculation will consider the net revenue from the application of Basic and Alternative Services Plans. These agreements can be extended only once for a term of 15 years.

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

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

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

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

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month period ended September 30, 2017

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

d) Corporate restructuring

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

e) Acquisition of Terra Networks by Wholly-Owned Subsidiary

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

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

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

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

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

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

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

Accounting Method

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

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

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

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

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

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

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

Provision for Probable Risks and Contingent Liabilities

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

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

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

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Probable:

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

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

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

Possible:

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

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

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

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

Other information

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

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

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

a) Statement of compliance

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

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

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

b) Basis of preparation and presentation

The Company's quarterly financial statements for the three and nine-month periods ended September 30, 2017 are presented in thousands of *Reais* (unless otherwise stated), which is the functional currency of the Company.

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

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

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

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

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

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

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

The quarterly financial statements were prepared in accordance with the principles, practices and accounting criteria consistent with those adopted in the preparation of the financial statements for the year ended December 31, 2016 (Note 3 Summary of Significant Accounting Practices) and should be analyzed in conjunction with these financial statements, in addition to the new pronouncements, interpretations and amendments, which came into effect as of January 1, 2017, as described below:

- Improvements to IFRS 2014-2016 (amendments to IFRS 2014-2016), amendments: The amendments introduce a number of improvements to IFRS in force, mainly to eliminate inconsistencies and clarify the wording of some of these standards. The amendment to IFRS 12 clarifies the scope of the standard and will be applicable for fiscal years beginning on January 1, 2017, while other improvements will be effective in 2018.

- IAS 7 - Cash Flow, amendments: The changes are part of the IASB disclosure initiative and require an entity to provide disclosures that enable users of financial statements to assess changes in liabilities arising from financing activities, including both the changes affecting cash flows, and changes that do not affect cash. At the initial adoption of the amendment, entities are not required to provide comparative information for prior periods.

- IAS 12 - Income Taxes, amendments: The amendments clarify that an entity should consider whether tax legislation restricts sources of taxable income against which it may make deductions on the reversal of that deductible temporary difference. In addition, the amendments provide guidance on how an entity should determine future taxable income and explain the circumstances under which taxable income may include the recovery of some assets for amounts greater than their carrying amount. If an entity adopts the changes for an earlier period, it should disclose that fact.

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These changes are effective for annual periods beginning on January 1, 2017. The Company will consider these changes in the preparation of the annual financial statements ending on December 31, 2017, although the application of these changes does not have a material impact on the financial position of the Company.
On the date of preparation of these quarterly financial statements, the following IFRS amendments had been published; however, their application was not mandatory. The Company does not adopt early any pronouncement, interpretation or amendment that has been issued, before application is mandatory.

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

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

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

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

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

• Introduces a new model for impairment losses on financial assets, i.e. the expected credit loss model, which replaces the current incurred loss model. Consequently, the application of the new requirements will probably lead to an acceleration in the recognition of impairment losses on financial assets.

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• Under current accounting, a hedge must be highly effective both, prospective and retrospectively, while IFRS 9 introduces a new, less restrictive, accounting model for hedging, requiring an economic relationship between the hedged item and the hedging instrument and that the coverage ratio be the same as that applied by the entity for its risk management. Likewise, the new standard modifies the criteria for documentation of hedging relationships.

• In addition, the Group's financial statements will include more detailed disclosures with relevant information regarding financial assets and liabilities.

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

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

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

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

Under IFRS 15, amounts will be allocated to each element based on the independent selling prices of each individual component in relation to the total price of the package and will be recognized (and measured) when the obligation is satisfied. The application of the new criteria will mean an acceleration in the recognition of equipment sales revenues, which are generally recognized at the time of delivery to the final consumer. To the extent that the packages are marketed at a discount, the difference between the profit on sales of equipment and the amount received from the customer at the inception of the contract will be recognized as a contractual asset.

- Under the current accounting policy, all expenses directly related with obtaining a contract (sales commissions and other third party acquisition costs) are expensed when incurred. However, IFRS 15 requires the recognition of an asset for those costs that are incremental to obtain a contract and that are expected to be recovered and its subsequent amortisation over the same period as the revenue associated with such asset.

- Compared to the current revenue standard, IFRS 15 sets out more detailed requirements on how to account for contract modifications. Certain changes must be accounted for as a retrospective change (as a continuation of the original contract), while other modifications must be accounted for prospectively (as separate contracts, like the end of the original contract and the creation of a new one).

- In addition, the Group's financial statements will include more qualitative and quantitative disclosure of income-related accounts.

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The Company is progressing in the process of implementing the new requirements. This process involves the introduction of modifications to the current information systems, the implementation of new IT tools, and changes in the processes and controls of the entire revenue cycle. This process of implementation in the Company a high degree of complexity due to factors such as a large number of contracts, numerous data source systems, diversity of business models, as well as the need to make complex estimates. Thus, despite the progress in the degree of development of the new tools that support the application of the new requirements, the Company understands that at the closing date of these quarterly financial statements it can not reliably measure the impact of the application of this standard.

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

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

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

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

- Not to apply the IFRS 15 retrospectively to contracts that are completed contracts at January 1, 2018.

- Portfolio of contracts: apply the requirements of the standard to groups of contracts with similar characteristics, since, for this cluster, the effects would not differ significantly from an application on a contract by contract basis.

- Financing component: it will not be considered significant when the period between when the promised good or service is transferred to a customer and when the customer pays for that good or service will be one year or less.

- Costs to obtain a contract: will be recognised as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

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

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

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

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

Due to the different alternatives available, as well as to the complexity of the estimates and the high number of contracts, the Company has not yet completed the implementation process, so that at the closing date of these quarterly financial statements it is not possible to reasonably estimate the impact that the application this standard.

However, based on the volume of contracts affected, as well as the magnitude of the future lease commitments, as disclosed in the Annual Financial Statements, the Company expects that the changes introduced by IFRS 16 would have a significant impact on its financial statements from the date of adoption, including the recognition on the balance sheet of right of use assets and their corresponding lease obligations in connection with the majority of contracts that are classified as operating leases under the current lease standard. Also, amortization of the right of use assets and recognition of interest costs on the lease obligation on the statements of income will replace amounts recognised as lease expense under the current lease standard. The classification of payments in the statement of cash flows will also be affected by the adoption of IFRS 16. The financial statements of the Company will include more detailed disclosures with relevant information on the lease agreements.

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

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

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

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

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

3) CASH AND CASH EQUIVALENTS

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

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

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4) TRADE ACCOUNTS RECEIVABLE, NET

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

Consolidated balances of non-current trade accounts receivable include:

- R$123,623 at September 30, 2017 (R$143,265 at December 31, 2016), relating to the business model of resale of goods to legal entities, receivable within 24 months. At September 30, 2017, the impact of the present-value adjustment was R$16,161 (R$32,920 at December 31, 2016).

- R$54,962, at September 30, 2017 (R$57,272, at December 31, 2016), net of the present value adjustment relating to the portion of accounts receivable arising from negotiations on the bankruptcy process of companies from the OI group. At September 30, 2017, the impact of the present-value adjustment was R$6,142 (R$10,268 at December 31, 2016).

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

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

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

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

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

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

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

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

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

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

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

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5) INVENTORIES, NET

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

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

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

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

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

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

6) DEFERRED TAXES AND TAXES RECOVERABLE

a) Taxes recoverable

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

(1) This includes credits arising from the acquisition of property and equipment (subject to offsetting in 48 months); requests for refund of ICMS, which was paid under invoices that were cancelled subsequently; for the rendering of services; tax substitution; and tax rate difference; among others. Non-current consolidated amounts include credits arising from the acquisition of property and equipment of R$383,263 and R$370,770 on September 30, 2017 and December 31, 2016, respectively.

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

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

b) <u>Deferred taxes</u>

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

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

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

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

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

						Co
	Balances at 12/31/15	Income statement	Comprehensive income	Balances at 09/30/16	Income statement	Comprehensiv incom
Deferred tax assets (liabilities)						
Income and social contribution taxes on tax losses (1)	**26,519**	**(13,382)**	**-**	**13,137**	**934**	
Income and social contribution taxes on temporary differences (2)	**685,071**	**(282,707)**	**1,866**	**404,230**	**(466,262)**	**76,97**
Provisions for legal, labor, tax civil and regulatory contingencies	1,954,236	210,433	-	2,164,669	65,667	
Trade accounts payable and other provisions	687,124	86,376	-	773,500	(96,377)	
Estimated losses on impairment of accounts	447,018	82,895	-	529,913	(171,108)	

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

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

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(1) This refers to the amounts recorded which, in accordance with Brazilian tax legislation, may be offset to the limit of 30% of the tax bases computed for the following years, with no expiry date. After the acquisition of Terra Networks by TData and based on the commercial and operational synergies resulting from the integration of this operation, a new strategic plan was elaborated for the next 10 years for Terra Networks, where this projection indicated a generation of taxable profits, enough to compensate the temporary differences and tax loss carryforwards in Terra Networks (note 1 e).

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

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

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

7) JUDICIAL DEPOSITS AND GARNISHMENTS

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

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

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

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

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

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

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

8) PREPAID EXPENSES

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

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

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

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

9) OTHER ASSETS

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

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10) INVESTMENTS

a) Information on investees

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

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

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

	At 09/30/17				At 09/30/16	
	Consolidated wholly-owned subsidiaries		Jointly-controlled subsidiaries		Consolidated wholly-owned subsidiaries	Jointly-con subsidia
Summary of Income Statements:	TData	POP	Cia AIX	Aliança	TData	

			Cia ACT			POP (2)	GVTPart. (1)	Cia ACT	Cia AIX
Net operating income	2,515,027	22,014	62	34,146	-				