TELEFONICA BRASIL S.A.
Form 6-K
March 27, 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 March, 2018

Commission File Number: 001-14475

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

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

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

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

Form 20-F	X	Form 40-F	

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

Yes		No	X

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

Yes	No	X

TELEFÔNICA BRASIL S.A.

QUARTERLY INFORMATION

DECEMBER 31, 2017

(A free translation of the original in Portuguese)

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Independent auditor's report

To the Board of Directors and Stockholders

Telefônica Brasil S.A.

Opinion

We have audited the accompanying parent company financial statements of Telefônica Brasil S.A. ("Company" or "Parent company"), which comprise the balance sheet as at December 31, 2017 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Telefônica Brasil S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Telefônica Brasil S.A. and of Telefônica Brasil S.A. and its subsidiaries as at December 31, 2017, and the financial performance and cash flows for the year then ended, as well as the consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the parent company and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the parent company and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Why it is a key audit matter	**How the matter was addressed in the audit**
Provision for tax and regulatory contingencies	
The Company and its subsidiaries are parties to a number of judicial and administrative civil, labor, tax and regulatory proceedings which arise in the normal course of their activities (Notes 3 and 18 to the financial statements). With respect to these tax and regulatory areas, the Company and its subsidiaries, at December 31, 2017, present loss contingencies totaling R$ 44 billion and R$6.4 billion, respectively, of which R$ 3.5 billion and R$ 1.1 billion, respectively, had been provided for as management, supported by external legal counsel, believes the likelihood of loss to be probable. Because of the complexity of the tax and regulatory environment, the significance of the amounts involved and the critical judgment required to estimate the likelihood of loss, any changes in perspectives and/or judgment may significantly affect the financial statements of the Company and its subsidiaries. For these reasons, we focused on the calculation and disclosure of these contingencies during our audit.	Our audit procedures included: a) Obtaining confirmation from the Company's external legal counsel for ongoing tax and regulatory proceedings, as well as management's estimates of the amounts and the likelihood of loss; b) Having management obtain, for significant tax and regulatory proceedings, with more subjective and complex interpretations, a position from renowned, independent experts on the likelihood of loss, and the basis for a defense; c) For the more significant contingencies, meeting with management to discuss and assess, with the support of our experts, when applicable, the Company's basis of conclusion; d) Assessing the adequacy of the disclosures presented in the notes to the financial statements; and e) Understanding and assessing the principal internal controls over the contingency identification and registration/disclosure processes. We have concluded that management has adequate internal controls and accounting policies, as well as supporting documentation, to provide a reasonable and consistent basis for its conclusions.
Recognition of unbilled revenue	

The recognition of revenue obtained from telecommunication services is considered a significant inherent risk, because it involves complex billing systems, requiring the processing of large volumes of data across varied product portfolios, which contain pricing inputs from a number of marketing plans (Notes 3 and 23 to the financial statements).	Our audit procedures included, among others: a) Assessing and testing the relevant Information Technology (IT) systems; b) Testing the transactions of revenue from services rendered on a non-statistical sampling basis; c) Understanding and assessing management's estimates to determine realized unbilled revenue at the end of the year;
Additionally, within this context, revenues are recognized on a monthly basis upon inflow of economic benefits and when there are the billed and unbilled revenues, arising from the services rendered between the billing date and the end of the month, being identified, processed, and recognized at the end of the service month. Unbilled revenue recorded in the month during which the services were rendered is reversed in the month subsequent to the effective billing month, and a new calculation for the measurement of unbilled revenue from services rendered during that month is made. This practice is repeated during the year.	d) Recalculating the estimate of revenue realized but not billed at the end of the year, and comparing these estimates with revenue effectively billed in the month after the closing; e) Adequacy of disclosures presented in the notes to the financial statements; and
We focused on this area during our audit because any inconsistency in the calculation of these estimates may significantly affect the financial statements of the Company and its subsidiaries.	f) Understanding and assessing the principal internal controls over the measurement and accounting recognition of unbilled revenue from services rendered. We have established that the internal controls and the estimates used by management have applied a reasonable basis for the recognition of revenue, consistent with the information included in the financial statements.

Internal control and information technology environment

The Company is engaged in the provision of telecommunications services and in the development of activities that are necessary or support the performance of such services. The services include: (i) Switched Fixed Telephone Service ("STFC"), (ii) Multimedia	With the support of our information technology experts, our audit procedures included the understanding and assessment of the information technology environment and the automated and manual controls over the application systems that are relevant to the preparation of the financial

Communication Service ("SCM"), data communication, including broadband Internet);

(iii) Personal Mobile Service ("SMP"); and (iv) Cable Television Network (Conditioned Access Service - "SEAC"), throughout Brazil, via concessions and authorizations, as established in the General Grant Plan ("PGO"). The Company is highly dependent on its information technology structure, which processes a considerable volume of transactions from its business operations.

Because of the Company's history of acquisitions as well as the volume of the Company's transactions, its information technology structure comprises more than one technological platform, each with different processes and segregated controls, which require a robust internal control system. Management is required to closely monitor daily operations, including the follow-up and compilation of physical quantitative, financial, and fiscal information from the services rendered.

We focused on this area in our audit because we identified a number of both manual and automated operational controls, a high level of system accesses, and decentralized segregation of duties environment. The assessment of the effectiveness of the processes and controls is critical to the audit process and to the definition of the intended scope for obtaining the necessary comfort, because a failure in the controls and/or processes might result in the incorrect processing of information and, consequently, in the improper presentation of the financial statements.

statement.

The procedures carried out comprise the combination of testing of the principal controls (and, when necessary, compensatory control testing), the testing of information security components, of privileged management access and of segregation of duties, that impact the financial statements. We also tested the automated and manual accounting entries, using a sample defined based on specific criteria related to the control transgression risk.

The results of these procedures provided appropriate and sufficient audit evidence regarding the proper preparation of the financial statements.

Other matters

Statements of value added

The parent company and consolidated statements of value added for the year ended December 31, 2017, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the financial statements of the Company and its subsidiaries. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in the Brazilian Technical Pronouncements Committee CPC 09 - "Statement of Value Added". In our opinion, these statements of value added have been properly prepared, in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

Prior-year information

The financial statements for the year ended December 31, 2016 were audited by another firm of independent auditors, whose report, dated February 17, 2017, expressed an unqualified opinion on those statements.

Other information accompanying the parent company and consolidated financial statements and the auditor's report

The Company's management is responsible for the other information that comprises the Management Report.

Our opinion on the parent company and consolidated financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with the audit of the parent company and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the parent company and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the parent company and consolidated financial statements

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's responsibilities for the audit of the parent company and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the parent company and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company and its subsidiaries.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, February 16, 2018

PricewaterhouseCoopers

Auditores Independentes

CRC 2SP000160/O-5

Estela Maris Vieira de Souza

Contadora CRC 1RS046957/O-3

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

(In thousands of reais)

		Company		Consolidated		
ASSETS	**Note**	**12.31.17**	**12.31.16**	**12.31.17**	**12.31.16**	**LIABILITIES**
Current assets		**16,668,039**	**17,482,265**	**16,731,666**	**18,398,995**	**Current liabilit**
Cash and cash equivalents	4	3,681,173	4,675,627	4,050,338	5,105,110	Personnel, socia
Trade accounts receivable	5	8,413,403	8,282,685	8,588,466	8,701,688	Trade accounts
Inventories	6	324,711	368,151	348,755	410,413	Taxes, charges a
Taxes recoverable	7.a	2,386,258	2,952,622	2,563,990	3,027,230	Dividends and i
Judicial deposits and garnishments	8	324,465	302,349	324,638	302,424	Provisions
Prepaid expenses	9	425,298	336,508	446,439	343,092	Deferred revenu
Dividends and interest on equity	17	323,206	-	-	-	Loans and finan
Derivative financial instruments	31	87,643	68,943	87,643	68,943	Debentures
Other assets	10	701,882	495,380	321,397	440,095	Derivative finan
						Other liabilities
Noncurrent assets		**85,495,114**	**84,475,240**	**84,651,169**	**83,667,264**	
Long-term assets						**Noncurrent lia**
Short-term investments pledged as collateral		81,472	78,153	81,486	78,166	Personnel, socia
Trade accounts receivable	5	167,682	200,537	273,888	305,411	Trade accounts
Taxes recoverable	7.a	740,104	474,240	743,285	476,844	Taxes, charges a
Deferred taxes	7.b	-	-	371,408	27,497	Deferred taxes
Judicial deposits and garnishments	8	6,155,821	5,974,733	6,339,167	6,049,142	Provisions
Prepaid expenses	9	21,684	35,340	23,116	36,430	Deferred revenu
Derivative financial instruments	31	76,762	144,050	76,762	144,050	Loans and finan
Other assets	10	86,345	53,363	88,935	55,565	Debentures
Investments	11	**1,949,276**	**1,407,155**	**98,902**	**85,745**	Derivative finan
Property, plant and equipment	12	**33,112,532**	**31,837,549**	**33,222,316**	**31,924,918**	Other liabilities
Intangible assets	13	**43,103,436**	**44,270,120**	**43,331,904**	**44,483,496**	
						TOTAL LIAB
						Equity
						Capital
						Capital reserves
						Income reserves
						Other comprehe
						Additional prop
TOTAL ASSETS		**102,163,153**	**101,957,505**	**101,382,835**	**102,066,259**	**TOTAL LIAB**

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TELEFÔNICA BRASIL S.A.
Income Statements
Years ended December 31, 2017 and 2016
(In thousands of reais, except earnings per share)

		Company		Consolidated	
	Note	2017	2016	2017	20
Net operating revenue	23	**39,343,728**	**38,625,395**	**43,206,832**	**42,508,45**
Cost of sales	24	(19,135,195)	(18,734,552)	(20,272,530)	(20,823,01
Gross profit		**20,208,533**	**19,890,843**	**22,934,302**	**21,685,44**
Operating income (expenses)		**(15,301,695)**	**(14,753,448)**	**(16,302,065)**	**(15,317,42**
Selling expenses	24	(12,758,952)	(11,996,153)	(13,136,474)	(12,455,36
General and administrative expenses	24	(2,334,905)	(2,685,366)	(2,443,105)	(2,793,38
Other operating income	25	782,932	939,516	464,182	968,47
Other operating expenses	25	(990,770)	(1,011,445)	(1,186,668)	(1,037,15
Operating income		**4,906,838**	**5,137,395**	**6,632,237**	**6,368,01**
Financial income	26	1,675,172	2,654,574	1,755,958	2,781,35
Financial expenses	26	(2,636,113)	(3,936,318)	(2,659,002)	(4,015,90
Equity pickup	11	1,303,484	845,776	1,580	1,24
Income before taxes		**5,249,381**	**4,701,427**	**5,730,773**	**5,134,72**
Income and social contribution taxes	27	(640,591)	(616,185)	(1,121,983)	(1,049,48
Net income for the year		**4,608,790**	**4,085,242**	**4,608,790**	**4,085,24**
Basic and diluted earnings per common share (in R$)	22	2.56	2.27		
Basic and diluted earnings per preferred share (in R$)	22	2.82	2.50		

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TELEFÔNICA BRASIL S.A.

Statements of Changes in Equity

Years ended December 31, 2017 and 2016

(In thousands of reais)

		Capital reserves			Income reserves			
	Capital	**Special goodwill reserve**	**Other capital reserves**	**Treasury shares**	**Legal reserve**	**Tax incentive reserve**	**Expansion and modernization reserve**	**Re ea**
Balances at December 31, 2015	**63.571.416**	**63.074**	**1.297.295**	**(87.805)**	**1.703.643**	**6.928**	**700.000**	**-**
Payment of additional dividend for 2015	-	-	-	-	-	-	-	-
Prescribed equity instruments, including unclaimed dividends and interest on equity	-	-	-	-	-	-	-	221.5
Preferred shares delivered referring to the judicial process of expansion plan	-	-	2	15	-	-	-	-

DIPJ adjustment - Tax incentives	-	-	-	-	-	10.141	-	(10.1
Other comprehensive income	-	-	-	-	-	-	-	(156.
Net income for the year	-	-	-	-	-	-	-	4.085
Allocation of income:								
Legal reserve	-	-	-	-	204.262	-	-	(204.
Interim interest on equity	-	-	-	-	-	-	-	(2.17
Reversal of expansion and Modernization Reserve	-	-	-	-	-	-	(700.000)	700.0
Expansion and Modernization Reserve	-	-	-	-	-	-	550.000	(550.
Additional proposed dividends	-	-	-	-	-	-	-	(1.91
Balances at December 31, 2016	**63.571.416**	**63.074**	**1.297.297**	**(87.790)**	**1.907.905**	**17.069**	**550.000**	**(0)**
Payment of additional dividend for 2016	-	-	-	-	-	-	-	-
Unclaimed dividends and interest on equity	-	-	-	-	-	-	-	101.7
Repurchase of preferred shares	-	-	-	(32)	-	-	-	-
Preferred shares delivered referring to the judicial process of expansion plan	-	-	-	2	-	-	-	-
DIPJ adjustment - Tax incentives	-	-	-	-	-	10.815	-	(10.8

Other comprehensive income	-	-	-	-	-	-	-	(113.
Equity transactions (Note 1 c.1)	-	-	(59.029)	-	-	-	-	-
Net income for the year	-	-	-	-	-	-	-	4.608
Allocation of income:								
Legal reserve	-	-	-	-	230.439	-	-	(230.
Interim interest on equity	-	-	-	-	-	-	-	(2.41
Reversal of expansion and Modernization Reserve	-	-	-	-	-	-	(550.000)	550.0
Expansion and Modernization Reserve	-	-	-	-	-	-	297.000	(297.
Additional proposed dividends	-	-	-	-	-	-	-	(2.19
Balances at December 31, 2017	**63.571.416**	**63.074**	**1.238.268**	**(87.820)**	**2.138.344**	**27.884**	**297.000**	**(0)**

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TELEFÔNICA BRASIL S.A.

Consolidated Statements of Cash Flows
Years ended December 31, 2017 and 2016
(In thousands in reais)

	Company	
	2017	**2016**
Cash flows from operating activities		
Income before taxes	**5.249.381**	**4.701.427**
Ajustement of:		
Depreciation and amortization	7.826.184	7.166.177
Foreign exchange on loans and derivative financial instruments	60.237	75.075
Monetary losses	536.891	632.120
Equity pickup	(1.303.484)	(845.776)
Gains on write-off/sale of assets	(74.619)	(447.178)
Provision for impairment - accounts receivable	1.405.085	1.225.742
Change in liability provisions	(58.423)	214.016
Write-off and reversals for impairment - inventories	(45.109)	(34.151)
Pension plans and other post-retirement benefits	30.877	5.962
Provisions for tax, civil, labor and regulatory contingencies	990.770	953.003
Interest expense	926.220	1.009.060
Decrease divestiture	-	(20.551)
Decrease customer loyalty program	(5.856)	(39.683)
Other	(5.499)	(3)
Changes in assets and liabilities		
Trade accounts receivable	(1.502.948)	(1.373.628)
Inventories	88.549	224.264
Taxes recoverable	(338.754)	(701.786)
Prepaid expenses	25.118	112.421
Other assets	(244.434)	92.839
Personnel, social charges and benefits	(87.209)	31.694
Trade accounts payable	1.217.264	(798.909)
Taxes, charges and contributions	220.381	439.125
Other liabilities	(2.078.311)	(1.350.044)
	7.582.930	**6.569.789**
Cash generated from operations	**12.832.311**	**11.271.216**
Interest paid	(859.586)	(886.156)
Income and social contribution taxes paid	-	(199.605)

Net cash (used in) generated by operating activities	**11.972.725**	**10.185.455**
<u>Cash flows from investing activities</u>		
Additions to PP&E, intangible assets and others	(8.195.876)	(6.828.200)
Cash received from sale of PP&E items	19.355	778.240
Cash paid for acquisition of companies	-	-
Cash received from sale of investments	-	-
Redemption of (increase in) judicial deposits	85.179	(183.845)
Dividends and interest on equity received	384.588	767.554
Cash and cash equivalents by incorporation	-	358.579
Other	111	-
Net cash (used in) generated by investing activities	**(7.706.643)**	**(5.107.672)**
<u>Cash flows from financing activities</u>		
Payment of loans, financing and debentures	(4.485.495)	(2.001.863)
Loans and financing raised	3.055.876	466.629
Received of derivative financial instruments	104.214	132.410
Payment of derivative financial instruments	(266.548)	(239.379)
Payment for reverse split of shares	-	(164)
Dividend and interest on equity paid	(3.668.551)	(2.966.384)
Treasury shares	(32)	-
Net cash (used in) generated by financing activities	**(5.260.536)**	**(4.608.751)**
Increase (decrease) in cash and cash equivalents	**(994.454)**	**469.032**
Cash and cash equivalents at beginning of the year	**4.675.627**	**4.206.595**
Cash and cash equivalents at end of the year	**3.681.173**	**4.675.627**

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TELEFÔNICA BRASIL S.A.
Statements of Other Comprehensive Income
Years ended December 31, 2017 and 2016
(In thousands of reais)

		Company
	Note	**2017**
Net income for the year		**4.608.790**
Other comprehensive income (losses) that may be reclassified into income (losses) in subsequent periods		**9.867**
Unrealized gains (losses) on investments available for sale	11	338
Gains (losses) on derivative financial instruments	31	(2.417)
Taxes		707
Cumulative Translation Adjustments (CTA) on transactions in foreign currency	11	11.239
Other comprehensive income (losses) to be reclassified into income (losses) in subsequent periods		**(107.694)**
Actuarial gains (losses) and limitation effect of the assets of surplus plan	30	(163.174)
Taxes		55.480
Interest in comprehensive income of subsidiaries	**11**	**(6.117)**
Other comprehensive income		**(103.944)**
Comprehensive income for the year		**4.504.846**

TELEFÔNICA BRASIL S.A.
Statements of Value Added
Years ended December 31, 2017 and 2016
(In thousands in reais)

	Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Revenues	**55.205.339**	**53.004.204**	**58.937.750**	**57.732.738**
Sale of goods and services	54.919.544	53.209.390	59.265.466	57.897.521
Other revenues	1.690.880	1.020.556	1.153.299	1.183.438
Provision for impairment of trade accounts receivable	(1.405.085)	(1.225.742)	(1.481.015)	(1.348.221)
Inputs acquired from third parties	**(18.696.568)**	**(18.491.586)**	**(19.942.270)**	**(20.418.608)**
Cost of goods and products sold and services rendered	(9.316.305)	(9.919.037)	(10.412.308)	(11.611.718)
Materials, electric energy, third-party services and other expenses	(9.499.989)	(9.033.230)	(9.648.698)	(9.273.974)
Loss/recovery of assets	119.726	460.681	118.736	467.084
Gross value added	**36.508.771**	**34.512.618**	**38.995.480**	**37.314.130**
Withholdings	**(7.826.184)**	**(7.166.177)**	**(7.853.734)**	**(7.654.406)**
Depreciation and amortization	(7.826.184)	(7.166.177)	(7.853.734)	(7.654.406)
Net value added produced	**28.682.587**	**27.346.441**	**31.141.746**	**29.659.724**
Value added received in transfer	**2.978.656**	**3.500.350**	**1.757.538**	**2.782.603**
Equity pickup	1.303.484	845.776	1.580	1.244
Financial income	1.675.172	2.654.574	1.755.958	2.781.359
Total undistributed value added				

	31.661.243	**30.846.791**	**32.899.284**	**32.442.327**
Distribution of value added	**(31.661.243)**	**(30.846.791)**	**(32.899.284)**	**(32.442.327)**
Personnel,social charges and benefits	(3.783.519)	(3.989.707)	(4.107.176)	(4.328.985)
Direct compensation	(2.601.425)	(2.723.511)	(2.803.226)	(2.961.166)
Benefits	(996.215)	(1.081.627)	(1.101.174)	(1.167.746)
Unemployment Compensation Fund (FGTS)	(185.879)	(184.569)	(202.776)	(200.073)
Taxes, charges and contributions	(17.824.012)	(16.413.347)	(18.702.536)	(17.455.205)
Federal	(4.902.666)	(4.600.556)	(5.748.082)	(5.230.279)
State	(12.815.664)	(11.737.192)	(12.822.020)	(12.105.390)
Local	(105.682)	(75.599)	(132.434)	(119.536)
Debt remuneration	(5.444.922)	(6.358.495)	(5.480.782)	(6.572.895)
Interest	(2.579.241)	(3.868.328)	(2.598.672)	(3.941.634)
Rental	(2.865.681)	(2.490.167)	(2.882.110)	(2.631.261)
Equity remuneration	(4.608.790)	(4.085.242)	(4.608.790)	(4.085.242)
Interest on equity	(2.416.639)	(2.172.145)	(2.416.639)	(2.172.145)
Retained profit	(2.192.151)	(1.913.097)	(2.192.151)	(1.913.097)

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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 Telefónica Group (“Group”), with headquarters in Spain and present in several countries of Europe and Latin America.

At December 31, 2017 and 2016, Telefónica S.A. (“Telefónica”), the Group holding company, held total direct and indirect interest in the Company (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 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.

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 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, 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 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 Company's authorization terms ("TA") for the operation of SMP, according to the SMP General Authorization Plan ("PGA"), are: (i) Region I - TA n. 078/2012 / PVCP / SPV-ANATEL ; (ii) Region II - TA n ° 005/2010 / PVCP / SPV-ANATEL; and (iii) Region III - TA n ° 006/2010 / PVCP / SPV-ANATEL.

The terms of authorization for the use of the radio frequency bands are granted based on the results obtained in the respective radio frequency auction conducted by ANATEL and are associated with the authorization terms for operating the service in each region.

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The following is a summary of the authorizations for the use of radio frequency bands, granted to the Company.

Radiofrequency	Band (MHz)		License Expiration (Year)	
450 MHz	14	(1)	2027	-
700 MHz	20	-	2029	-
850 MHz	25	(2)	2020-2028	(3)
900 MHz	5	(4)	2020-2023	(5)
1800 MHz	20	(6)	2020-2023	(5)
1900 MHz	10	(7)	2022	-
2100 MHz	20-30	(10)	2023	-
2500 MHz	40	(8)	2027-2031	(9)

(1) State SP (cities with código nacional CN 13 to 19), MG and Northeast (AL, CE, PB, PE, PI, RN and SE).

(2) Except Northeast (CN 8X) and areas corresponding to sectors 03, 22, 25, 30 and 32 of the PGO / 1998.

(3) Regional Licenses: The expiration and renewal dates depend on the region. Licenses in Rio de Janeiro and Espírito Santo should expire in 2020 and 2023, respectively.

(4) Only in some regions.

(5) MG Interior expiry date 2020; the remaining licenses will expire in 2023.

(6) 20 MHz is the most common bandwidth, but is higher in some regions (up to 50 MHz).

(7) Only Northeast (CN 8X) and areas corresponding to sectors 22, 25, 30 and 32 of PGO / 1998. The licenses should be migrated to the frequency of 2100 MHz ("L-band realignment", which allows the use of 3G technology) when approved by Anatel.

(8) 40 MHz is the most common bandwidth, but is 60 MHz in some regions.

(9) The X band will expire in 2027 and the P band will expire in 2031.

(10) 30MHz in regions where the "L band" has already been migrated to the 2100 MHz frequency; 20 MHz in other regions.

c) Relevant events occurred in 2017 and 2016

c.1) 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.

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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.

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.

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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	7,047	Other liabilities	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.

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 conclusion of the financial statements for the period ended December 31, 2017, Terra Networks contributed R$155,224 of consolidated net operating revenue and R$179,615 of consolidated net income to the Company, mainly due to the recognition of R$125,191 of income tax on tax losses and negative basis of social contribution (note 7 b).

c.2) Corporate restructuring - 2016

The Shareholders' Meeting held on April 1, 2016, approved corporate restructuring in accordance with the terms and conditions proposed on March 14, 2016.

The corporate restructuring was approved by ANATEL through Ruling No. 50,169, dated January 22, 2016, which was published in the DOU on January 28, 2016, with the conditions provided therein.

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GVT Participações S.A. (“GVTPart.”) was the parent company of Global Village Telecom S.A. ("GVT"), companies controlled by the Company from May 28, 2015 to April 1, 2016. GVT was the direct controlling holder of POP Internet Ltda. (“POP”), and indirect controlling holder of Innoweb Ltda. (“Innoweb”), both with head offices in Brazil.

POP is a provider of free Internet access and content. Innoweb (subsidiary of POP) provides services using VoIP technology (voicer over IP), which allows calls using the Internet, with the facilities inherent in this environment.

The corporate restructuring occurred on the same date as the Shareholders’ Meeting mentioned above, as follows: (i) GVT was spun-off and its net assets, including assets, rights and obligations related to telecommunications activities, were absorbed by GVTPart., where as the remaining portion relating to assets, rights and obligations related to activities other than telecommunications was absorbed by POP; and (ii) the net assets of GVTPart. (after the merger of GVT’s net assets, item (i)) was merged into the Company.

The corporate restructuring intends to standardize the services provided by the companies involved in this process by (i) concentrating the rendering of telecommunication services in a single company, i.e., the Company; and (ii) migrating of activities that were provided by GVT, other than telecommunication services to POP.

As such, the simplification of the corporate structure and the centralization of the provision of telecommunication services at the Company will lead to a converging environment, facilitating consolidation and centralization in the offering of telecommunication services and simplification of service package offerings; optimizing administrative and operating costs; and standardization of the operations at the companies involved in the corporate restructuring.

Given that the merger of GVTPart. into the Company did not require a capital increase or a change in shareholders’ interest in the Company, since GVTPart. was a wholly-owned subsidiary of the Company, the replacement of shares held by the shareholders in GVTPart. with shares in the Company is not applicable. Consequently, there are no minority interests to be considered and, therefore, in accordance with the CVM’s position in similar prior cases, and under the terms of CVM Resolution No. 559/08, the provisions of article 264 of Law No. 6404/76 and its further amendments similarly do not apply.

In addition, in relation to the transaction preceding the merger of GVTPart into the Company, the replacement of shares is not applicable, given that GVT is a subsidiary of GVTPart. and of the Company itself, thus there are no minority shareholders.

Pursuant to the provisions of article 137 of Law No. 6404/76 and its further amendments, the corporate restructuring does not entitle the Company's shareholders to the right of withdrawal. Furthermore, considering that there are no minority shareholders of GVTPart., since it is a wholly-owned subsidiary of the Company, there is no question of right to withdrawal or exercise of the right to withdraw by GVTPart. non-controlling shareholders as provided for in article 136, item iv, and article 137 of Law No. 6404/76 and its further amendments.

c.3 Acquisition of GVT Participações S.A. ("GVTPart.")

Pursuant to, and for the purposes of, CVM Rule No. 358/02, the Company informed the market that its Special Shareholders' Meeting ("AGE") held on May 28, 2015 approved the ratification of the Stock Purchase Agreement and Other Covenants executed by the Company, in the capacity of "Buyer", and Vivendi and its subsidiaries (Société d'Investissements et de Gestion 108 SAS - "FrHolding108" and Société d'Investissements et de Gestion 72 S.A.), in the capacity of "Sellers", whereby all the shares issued by GVTPart were acquired by the Company.

Payment for acquisition of GVTPart. shares was made as follows: (i) €4.663 billion paid in cash after contractual adjustments for net debt assumed on the execution date; and (ii) Company- issued shares delivered to FRHolding108 as a result of the merger of GVTPart shares by the Company, representing 12% of the Company's capital stock after the merger of shares.

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As a result of the merger of GVTPart. shares, the Company's capital increased by R$9,666,021, with the issuance of 68,597,306 common shares and 134,320,885 preferred shares, all registered, no-par value shares, based on the economic value of merged shares calculated using the discounted cash flow method and on the appraisal report on GVTPart's economic value prepared by an expert firm, in accordance with article 252, paragraph 1, together with article 8, of Law No. 6404/76. The difference between the economic value of merged shares and the market value of shares issued on the transaction closing date was recognized in "Other Capital Reserves", in the amount of R$1,188,707.

This transaction was subject to obtaining of applicable corporate and regulatory approvals, including from Brazil's Administrative Council for Economic Defense ("CADE") and ANATEL, further to other conditions usually applicable to this type of transaction. The transaction was approved by ANATEL under Act No. 448 of January 22, 2015, published in the Official Federal Gazette ("DOU") on January 26, 2015, and by CADE at the 61st ordinary session of its Trial Court, held on March 25, 2015, and published in the Official Federal Gazette ("DOU") on March 31, 2015.

Once the acquisition transaction was completed on May 28, 2015, the Company held direct interest in GVTPart and indirect interest in GVT. GVTPart. is headquartered in Brazil as its business purpose includes participation in other companies, whether national or foreign, as partner, shareholder or member. Its direct subsidiary (GVT) provides landline telephone, data, multimedia communication and pay-tv services throughout Brazilian territory.

Under IFRS 3 (R) / CPC 15 (R1) – Business Combinations, business acquisitions are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair value of assets transferred, the liabilities assumed at the acquisition date from the former acquiree's shareholders and equity interests issued in exchange for control over the acquiree.

The acquisition price was as follows:

Gross consideration in cash (4.663 billion euros)	15,964,853
(-) Contractual Adjustments (Net Debt)	(7,060,899)
Total consideration in cash, net	**8,903,954**
(+) Contingent Consideration	344,217
(+) Consideration in Shares at Fair Value	8,477,314
(-) Cash Flow Hedge Gain on Transaction, net of taxes (1)	(377,373)
(-) Refund according to sections 2.2.4 and 2.2.5 of SPA	(84,598)
Total consideration, net of Cash Flow Hedge	**17,263,514**

(1) Derivative transactions refer to cash flow hedges to protect the amount due in Euros to Vivendi, for the acquisition of GVTPart., against exchange rate variation of the amount.

A breakdown of the fair value of identifiable net assets acquired for R$4,426,373, as well as goodwill recorded on the acquisition date are presented below. At the date of preparation of the financial statements for the year ended December 31, 2015, the Company had already completed the revisions and adjustments of the fair value determination of the identifiable assets acquired and liabilities assumed by GVTPart..

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Current assets	**1,557,651**	**Current liabilities**	**5,299,662**
Cash and cash equivalents	390,255	Personnel, social charges and benefits	170,989
Accounts receivable	947,378	Trade accounts payable	611,425
Inventories	4,641	Taxes, charges and contributions	346,569
Taxes recoverable	147,057	Loans and financing	3,968,615
Other assets	68,320	Provisions	17,866
		Other liabilities	184,198
Noncurrent assets	**12,026,239**		
Short-term investment pledged as collateral	17,871	**Noncurrent liabilities**	**3,857,855**
Taxes recoverable	65,798	Trade accounts payable	67,742
Deferred taxes (4)	610,873	Taxes, charges and contributions	1,342
Judicial deposits and garnishments	551,275	Loans and financing	3,088,414
Other assets	7,052	General Provisions (3)	679,294
Property and equipment (1)	7,970,117	Other liabilities	21,063
Intangible assets (2)	2,803,253		
		Fair value of assumed liabilities	**9,157,517**
		Fair value of identifiable net assets acquired	**4,426,373**
		Goodwill (5)	**12,837,141**

Fair value of assets acquired	**13,583,890**	**Total consideration, net of Cash Flow Hedge**	**17,263,514**

(1) This includes the allocation of appreciation of property, plant and equipment items (R$409,601).

(2) This includes the allocation of fair value assigned to the brand (R$59,000), customer portfolio (R$2,523,000), appreciation and other intangibles assets (R$20,394).

(3) This includes the allocation of fair value assigned to contingent liabilities (R$512,648).

(4) This includes the allocation of deferred taxes on contingent liabilities (R$174,300).

(5) This refers to goodwill recorded on the acquisition of GVTPart. based on expected synergies resulting from the business combination. This amount has already been used for tax purposes.

The main purpose of the Company's acquiring of control over GVTPart was to enable the integration of landline, mobile, data and TV telecommunication services in Brazil, with a view to operating more efficiently. The acquisition of GVTPart. allows the Company to obtain significant synergies in revenues and costs, thus generating opportunities of cross sales in the individual and corporate markets, also allowing optimization of investments, improvement of service quality, reduction of cost of content, acquisition and platform in the pay-tv business, due to economies of scale, as well as reduction of general and administrative expenses, not affecting the Company's growth potential.

The methods and assumptions used to determine the fair values were:

Customer portfolio

The customer portfolio was valued using the MEEM method ("Multi-period Excess Earnings Method"), which is based on a discounted cash flow calculation of future economic benefits attributable to the customer base, net of eliminated liabilities for contributions involving its generation.

In order to estimate the remaining useful life of the customer portfolio, an analysis of the average length of customer relationships was conducted using a churn method.

The purpose of the useful life analysis is to estimate a survival curve that anticipates future churn rates in relation to the existing customer base. The so-called Iowa curves were used as an approximation to the customer survival curve. The fair value allocated to the customer portfolio on the acquisition date was R$2,523,000, which will be amortized over 7.77 years on average.

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Brand

The fair value of “GVT” brand was determined through the "relief-from-royalty” method. This method measures the value of the asset by capitalizing the royalties saved by owning intellectual property. In other words, the owner of the brand profits from owning the intangible asset, rather than having to pay royalties for its use. The royalties saved were determined by applying a market royalty rate (expressed as a percentage of revenue) to the future expected revenues from the sale of the product or service associated with the intangible asset. The market royalty rate, normally expressed as a percentage of net revenue, is the rate a knowledgeable willing owner would charge a knowledgeable willing user for use of an asset it owns in an arm’s length transaction. The fair value allocated to the brand on the acquisition date was R$59,000, which will be amortized over 1.5 years.

Contingent Consideration

As part of the Stock Purchase Agreement and Other Covenants executed by the Company and Vivendi for the acquisition of all GVTPart-issued shares, a contingent consideration was defined for the court deposits made by GVT for the monthly installments of deferred income and social contribution taxes on the amortization of goodwill arising from the corporate restructuring process completed by GVT in 2013. In September 2014, GVT filed for a cancellation of the judicial review and the return of amounts deposited with the courts.

If GVT succeeds in receiving (being reimbursed, refunded or netting) these funds, they will be returned to Vivendi, as long as they are obtained in a final unappeasable decision. The period for returning such amount is of up to 15 years. The fair value of the contingent consideration on the acquisition date is R$344,217, recorded in the Company’s noncurrent liabilities as “Loans, Financing and Debentures” (Note 20), which is subject to monthly monetary adjustments based on the Selic rate.

Fair value of contingent liabilities

According to IFRS 3 (R) / CPC 15 (R1) - Business Combinations, the acquirer must recognize, on the acquisition date, contingent liabilities assumed in a business combination, even if it is not probable that cash outflows will be required to settle the obligation, as long as it is a present obligation arising from past events and its fair value can be measured reliably.

In compliance with these requirements, contingent liabilities were recognized the amount of R$512,648 of contingent liabilities at fair value, which were determined considering the expected cash outflow required to settle the obligation on the acquisition date.

2) BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

a) Statement of compliance

The individual financial statements (Company) and the consolidated financial statements (Consolidated) were prepared and are presented in accordance with the accounting practices adopted in Brazil, which comprise CVM rulings and Brazilian FASB (CPC) pronouncements, guidelines and interpretations issued by the FASB in compliance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

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b) <u>Basis of preparation and presentation</u>

The Company's financial statements for the years ended December 31, 2017 and 2016 are presented in thousands of reais (unless otherwise stated), which is the Company's functional currency and were prepared under the going concern assumption.

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

The Board of Directors authorized the issue of these individual and consolidated financial statements at the meeting held on February 16, 2018.

The financial statements were prepared on a historical cost basis (except where different criteria are required) and adjusted to reflect the valuation of assets and liabilities measured at fair value or considering the mark-to-market valuation when such valuations are required by IFRS.

These financial statements were prepared under various measurement bases used in accounting estimates. The accounting estimates involved in the preparation of these financial statements were based on objective and subjective factors, considering management's judgment for determining the adequate amounts to be recorded in the financial statements. Significant items subject to these estimates and assumptions include: selection of useful lives and recoverability of property, plant and equipment in operations, measurement of the recoverability of assets with indefinite useful lives, measurement of financial assets at fair value and under present value adjustment method, as well as non-financial assets acquired in a business combination, credit risk analysis in determining estimated impairment losses of trade accounts receivable, as well as the analysis of other risks in determining other provisions, including the provision for contingencies. The carrying amounts of assets and liabilities recognized, which represent hedged items at fair value, which, alternatively, would have been recorded at amortized cost, are adjusted to state the variations in fair values attributable to the hedged risks.

Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties inherent in their estimate process. The Company reviews its estimates at least on an annual basis.

For comparability with the individual financial statements (income statement, statements of comprehensive income, statements of value added and statements of cash flows) for years ended December 31, 2017 and 2016, the effects of acquisition of Terra Networks by TData occurred on July 3, 2017 (note 1.c.1).

The accounting policies adopted in the preparation of the consolidated financial statements for the year ended December 31, 2017 are consistent with those used in the preparation of the consolidated annual financial statements for the year ended December 31, 2016. The following amendments to standards published by the International Accounting Standards Board (IASB) come into force for annual periods beginning on or after January 1, 2017:

• Improvements to IFRS 2014-2016: The annual improvements projects provide a vehicle for making non-urgent but necessary amendments to IFRS, with the aim of removing inconsistencies and clarifying wording. The amendments related to IFRS 12 Disclosure of Interests in other Entities, aimed clarifying the scope of the standard, come into force for annual periods beginning on or after January 1, 2017, whereas the rest of the improvements come into force for annual periods beginning on or after January 1, 2018. The amendments related to IFRS 12 do not have an impact on the Company’s consolidated financial statements since, as of December 31, 2017, the Company does not have participations that are classified as held for sale, as held for distribution or as discontinued operations.

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- Amendments to IAS 7, Disclosure Initiative: The amendments to IAS 7 require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows, such as the issue and repayments of loans, and non-cash changes, such as unpaid acquisitions, sales and exchange differences.

- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses: The amendments clarify the requirements on recognition of deferred taxes when the tax base of an asset exceeds its fair value.

The Company considered these amendments in the preparation of the annual consolidated financial statements; however, did not generate a significant impact on its results or financial position.

On the date of preparation of these 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		**Mandatory application: annual periods beginning on or after**
IFRS 9	Financial Instruments	1-Jan-18
IFRS15	Revenue from Contracts with Customers	1-Jan-18
Clarifications to IFRS 15	Revenue from Contracts with Customers , issued on April 12, 2016	1-Jan-18
Amendments to IFRS 2	Classication and Valuation of Share Based Transactions	1-Jan-18
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1-Jan-18
Amendments to IAS 40	Transfers of Investiment Property	1-Jan-18
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1-Jan-18
Improvements to IFRS Standards	2014-2016 Cycle	1-Jan-18
Improvements to IFRS Standards	2015-2017 Cycle	1-Jan-19
IFRS 16	Leases	1-Jan-19
IFRIC23	Uncertainty over Income Tax Treatments	1-Jan-19
		1-Jan-19

Amendments to IFRS 9	Prepayment Features with Negative Compensation	
Amendments to IAS 28	Long-term Interest in associates and Joint Ventures	1-Jan-19
IFRS 17	Insurance Contracts	1-Jan-21
Amendments to IFRS 10 and IAS 28	Sale or Contribuition of Assets between na Investidor and its Associate or Joint Venture	Deferred Indefinitely

Based on the analyses made to date, the Company estimates that the adoption of many of these standards, amendments and interpretations will not have a significant impact on the consolidated financial statements in the initial period of adoption. However, for the following issued but not yet effective standards are expected to have a significant impact on the consolidated financial statements at the time of their adoption and prospectively.

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IFRS 15 Revenues from Contracts with Customers

IFRS 15 sets out the requirements for recognising revenue from contracts with customers. The new requirements are expected to affect the following aspects, among others:

- Under IFRS 15, for bundled packages that combine multiple wireline, wireless, data, internet or television goods or services, the total revenue will be 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. This differs from current accounting where the portion of the total consideration that is contingent upon delivery of undelivered elements is not allocated to the delivered elements. Consequently, when bundles include a discount on equipment, the adoption of these new requirements will result in an increase in revenues recognized from the sale of handsets and other equipment, generally recognized upon delivery to the end customer, 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 will be recognised as a *contract asset* on the statement of financial position.

- 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. Similarly, certain contract fulfilment costs, which are currently expensed when incurred, will be deferred under IFRS 15 to the extent that they relate to performance obligations that are satisfied over time.

- The guidance in IFRS 15 for the distinction between agent and principal is based on the concept of "control" that may differ from the currently applied notion of transfer of "risks and rewards". As a result, with the adoption of IFRS 15, the Company will record revenue from the sale of handsets to dealers at the time of delivery and not at the time of sale to the final customer.

- 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 (i.e. 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 to this, IFRS 15 allows for two transition methods, namely the full retrospective method and the modified retrospective method with the cumulative effect from initial application recognised as an adjustment to the opening balance of retained earnings at the date of initial application. The Company will adopt the latter and prior-year comparatives will not be restated; instead, the Company will disclose the nature and amount of the changes in items in the statement of financial position and the income statement as a result of applying IFRS 15 for the first time.

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It is also possible to elect to apply certain practical expedients to facilitate the application of the new criteria. The Company has evaluated which of them will be adopted in the implementation of the standard with the objective of reducing the complexity in its application. The main practical expedients that the Company will adopt are:

• Completed contracts: the Company will not apply the standard retrospectively to those contracts that are completed at January 1, 2018.

• Portfolio approach: the Company will apply the requirements of the standard to 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.

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

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

The process of implementing the new requirements 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 in the Company. This process of implementation in the Company entails 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 last financial year considering commercial offers as well as the volume of contracts affected, the Company estimates that the adoption of the new revenue recognition requirements on its equity is expected to result in an increase in retained earnings of 156 million reais before deferred taxes, being the most significant impacts due to the changes introduced by IFRS 15 relating to the first-time recognition of contract assets that, under IFRS 15, lead to the earlier recognition of revenue from the sale of goods, and the activation and deferral of the incremental costs related to the obtaining contracts and contract fulfilment costs that, under IFRS 15, result in the later recognition of customer acquisition costs and other selling expenses.

As the accounting effects of the transition to the new standard will be recognized directly in equity, the effects on profit or loss in 2018 will be related to changes in the point in time at which revenue and expenses are realized. The Company expects a shift from revenues from the provision of services to revenues from the sale of goods, by between 0.3 and 0.7 percentage points on the assumption that there are no significant changes to business models or products offered.

IFRS 9 Financial Instruments

IFRS 9 is applicable to financial assets and financial liabilities. As a result of the analysis of the effects of the new requirements introduced by this standard certain expected impacts have been identified in relation with to the following aspects, among others:

- IFRS 9 simplifies the current measurement model for financial assets and establishes three main categories: amortised cost, fair value through profit or loss and 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 designated at fair value through profit or loss.

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- IFRS 9 introduces a new model for impairment losses on financial assets, i.e. the expected credit loss model, which replaces the current incurred loss model. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables. Consequently, the application of the new requirements will probably lead to an acceleration in the recognition of impairment losses on its financial assets, mainly trade receivables.

- 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 to this, the Company's financial statements will include more detailed disclosures with relevant information regarding financial assets and liabilities.

As a result of the analysis of the new standard, the Company 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 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.

Based on the analysis performed to date, the Company estimates that the new impairment requirements is expected to result upon initial adoption in a decrease of 354 million reais in retained earnings, before deferred taxes, as a result of the increase in the bad debt provision balance on receivables from customers recognised under IAS 39.

<u>IFRS 16 Leases</u>

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

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

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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 32 herein, the Company expects that the changes introduced by IFRS 16 will have a significant impact on its financial statements from the date of adoption, including the recognition on the balance sheet of right of use assets and their corresponding lease obligations in connection with the majority of contracts that are classified as operating leases under the current lease standard. Also, amortization of the right of use assets and recognition of interest costs on the lease obligation on the statements of income will replace amounts recognised as lease expense under the current lease standard. Classification of lease payments in the statement of cash flows will also be affected by the requirements of the new lease standard. On the other side, the Company's Financial Statements will include broader disclosures with relevant information regarding lease contracts.

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

The consolidated financial statements include the financial statements of the Company and its subsidiaries at December 31, 2017 and 2016 (Note 11).

The Company held the following direct equity interests on the respective dates:

Investees	Type of investment	Equity interests	Country (Headquarters)
Telefônica Data S.A. ("TData") (1)	Wholly-owned subsidiary	100.00%	Brazil
POP Internet Ltda ("POP") (2)	Wholly-owned subsidiary	100.00%	Brazil
Aliança Atlântica Holding B.V. ("Aliança")	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

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

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

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

3) SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

a) Cash and cash equivalents

These are maintained in order to meet short-term cash commitments and not for investment or other purposes. The Company and subsidiaries consider cash equivalents a short-term investment readily convertible into a known amount of cash and subject to insignificant risk of change in value. Short-term investments are classified as cash-equivalent when redeemable within 90 days (Note 4).

b) Trade accounts receivable

These are evaluated by the value of the services provided in accordance with the contracted conditions, net of estimated impairment losses. These include the services provided to customers, which were still not billed until balance sheet date, as well as other trade accounts receivable related to the sale of cellphones, SIM cards, accessories, advertising and rent of IT equipment (TData's "Soluciona TI" product), (Note 5).

The estimated impairment losses are set up at amounts sufficient to cover any losses and mainly consider the expected default.

c) <u>Inventories</u>

These are evaluated and presented at lower of average acquisition cost and net realizable value, whichever is lower. These include cellphones, SIM cards, prepaid cards, accessories, consumption materials and maintenance. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to sell (Note 6).

Estimated impairment losses are set up for materials and devices considered obsolete or whose carrying amounts are in excess of those usually sold by the Company within a reasonable period of time.

d) <u>Prepaid expenses</u>

These are stated at amounts effectively disbursed referring to services contracted but not yet incurred. Prepaid expenses are allocated to the income statements to the extent that related services are rendered and economic benefits are obtained (Note 9).

e) <u>Investments</u>

Control is obtained when the Company is exposed or has the right to variable returns based on its involvement with the investee and has the capacity of affecting those returns through the power exercised over an investee.

The consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ends when the Company ceases to exercise said control. Assets, liabilities and results of a subsidiary acquired or sold during the year are included in the consolidated financial statements from the date on which the Company obtains control until the date on which the Company ceases to exercise control over the subsidiary.

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Joint control is the contractually agreed sharing of a control, only existing when decisions about relevant activities call for unanimous agreement by the parties sharing control.

Based on the equity method, investments are recorded in balance sheets at cost plus changes after the acquisition of the equity interest. The income statement reflects the portion of the results of operations of the investees.

When changes are directly recognized in the investees' equity, the Company will recognize its portion in variations occurred, and as record these variations in the statements of changes in equity and in the statements of comprehensive income, where applicable.

The financial statements of investees are prepared for the same reporting period of the Company. Whenever necessary, adjustments are made so that the accounting policies are in accordance with those adopted by the Company.

After the equity method is applied, the Company determines whether there is any need to recognize additional impairment of its investment in investees. At each closing date, the Company determines whether there is objective evidence of impairment of investment in the affiliate. If so, the Company calculates the recoverable amount as the difference between the recoverable value of the investees and their carrying amount, and recognizes the amount in the income statements.

When there is loss of significant influence over the investees, the Company evaluates and recognizes the investment, at that moment, at fair value. Any difference between the investees' carrying amount by the time it loses significant influence and the fair value of the remaining investment and revenue from sale is recognized in the income statements.

Foreign exchange variations in Aliança's equity (jointly-controlled entity) are recognized in the Company's equity in other comprehensive income ("Effects on conversion of investments abroad", Note 22).

f) Property, plant and equipment

Property, plant and equipment are stated at acquisition and/or construction cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the borrowing costs for long-term construction projects if the recognition criteria are met, and is stated net of ICMS (State VAT) credits, which were recorded as recoverable taxes.

Asset costs are capitalized until the asset becomes operational. Costs incurred after the asset becomes operational and that do not improve the functionality or extend the useful life of the asset are immediately recognized on the accrual basis. When significant parts of fixed assets are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation. Likewise, expenses that represent asset improvement (expanded installed capacity or useful life) are capitalized. All the other repair and maintenance costs are recognized in the income statement as incurred.

The present value of the expected cost for the decommissioning of property, plant and equipment items (towers and equipment on leased property) is capitalized at the cost of the respective asset matched against the provision for dismantling obligations (Note 18) and depreciated over the useful lives of the related assets, which do not exceed the lease term.

Depreciation is calculated by the straight-line method over the useful lives of assets at rates that take into account the estimated useful lives of assets based on technical analyses. The assets' residual values, useful lives and methods of depreciation are reviewed on a yearly basis, adjusted prospectively, if appropriate. Useful life in terms of depreciation rates, which is reviewed annually by the Company.

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Property, plant and equipment items are written off when sold or when no future economic benefit is expected from their use or sale. Any gains or losses arising from write-off of assets (measured as the difference between the net disposal proceeds and the net carrying amount of the asset) are recognized in the income statement in the year in which the asset is written off.

A brief description of the main property, plant and equipment items, Note 12 is as follows:

- Switching and transmission media equipment: Includes switching and control centers, gateway, platforms, base radio station, microcells, minicells, repeaters, antennas, radios, access networks, concentrators, cables, TV equipment and other switching and transmission media equipment.

- Terminal/modem equipment: Includes cellphones and modems (rent and free lease), CPCT, public telephones and other terminal equipment.

- Infrastructure: This includes buildings, elevators, central air conditioning equipment, towers, posts, containers, energy equipment, land piping, support and protectors, leasehold improvements, etc.

- Other fixed asset items: These include vehicles, repair and construction tools and instruments, telesupervision equipment, IT equipment, testing and measurement equipment, fixtures and other goods for general use.

g) Intangible assets

Intangible assets acquired separately are measured at cost upon their initial recognition. The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

After initial recognition, intangible assets are stated at acquisition and/or buildup cost, net of amortization and accumulated provision for impairment, where applicable. Intangible assets generated internally, excluding capitalized development costs, are not capitalized, and the expense is reflected in the income statement for the year in which it is incurred.

The useful lives of intangible assets are considered finite or indefinite.

• Intangible assets with finite useful lives are amortized over their economic useful lives under the straight-line method and are tested for impairment whenever there is any indication of impairment loss. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed on an annual basis.

Changes in the estimated useful life or the expected pattern of consumption of future economic benefits embodied in an asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the cost/expense category consistent with the function of the intangible assets.

• Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be justifiable. Otherwise, changes in useful life – from indefinite to finite - are carried out prospectively. Goodwill generated upon investment acquisition is treated as intangible assets with indefinite useful lives.

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Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in the income statement on disposal.

A brief description of the key intangible asset items with finite useful lives, Note 13, is as follows:

- Software: This includes licenses for software used in the Company's operating, commercial and administrative activities.

- Customer portfolio: This includes intangible assets acquired through business combination, recorded at fair value on the acquisition date.

- Trademarks: These include intangible assets acquired through business combination, recorded at fair value on the acquisition date.

- Licenses: These include concession and authorization licenses, acquired from ANATEL for provision of telecommunication services. These also include licenses from business combinations, recorded at fair value on the acquisition date.

h) Lease

The classification of an agreement as a commercial lease is based on substantive issues related to the use of an asset or specific assets, or even the right to use a given asset, on the initial date of its execution.

Finance lease agreements: By means of these agreements, the Company assumes substantially all risks and rewards relating to ownership of a leased item. These are capitalized at the lease inception at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Initial direct costs incurred in the transaction are added to cost, where applicable. Payments of finance lease agreements are allocated to financial charges and reduction of finance lease liabilities in order to obtain the constant interest rate on the outstanding liability balance. Implicit interest recognized in liabilities is allocated to the income statement over the lease term using the effective interest rate method.

Leased assets are depreciated according to their estimated useful lives or the lease term, whichever is shorter.

The Company and TData are parties to the following finance lease agreements:

- As lessee: lease agreements for transmission equipment and media arising from a joint construction agreement with another telecomm operator, based on an optical network linked to the power transmission line, interconnecting the northern Brazilian cities to the Company's national backbone and lease of towers and rooftops (arising from sale and finance leaseback, for which the net carrying amount of the assets upon disposal remained unchanged, a liability was recognized at the present value of minimum lease payments and deferred income was recorded at the difference between the selling price and the mentioned present value. (Note 19).

- As lessor: Lease agreements for IT equipment (TData's "Soluciona TI" product) for which the Company recognizes revenue, upon inception, at the present value of lease payments matched against accounts receivable (Note 5).

The difference between the nominal amount of lease payments and recorded accounts receivable/payable are recognized as finance income/expenses using the effective interest method over the lease term.

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Operating lease: These are lease agreements where lessor holds a significant portion of risks and rewards, where effects are recognized in the income statements for the year over the contractual term.

i) Impairment of nonfinancial assets

The Company annually reviews the net carrying amount of assets in order to evaluate events or changes in economic, operating or technological circumstances that may indicate impairment losses. When such evidence is found, and net carrying amount exceeds recoverable amount, a provision for impairment is recorded so as to adjust the net carrying amount to the recoverable amount.

The recoverable amount of an asset or a Cash Generating Unit ("CGU") is defined as the higher of value in use and net sales value.

Upon estimation of the value in use of an asset or cash-generating unit, estimated future cash flows are discounted at present value using a discount rate based on the cost of capital rate the Capital Asset Pricing Model (CAPM) before taxes, which reflects the weighted average cost of capital and specific risks of the asset or CGU.

Whenever possible, the net sale value is determined based on a firm sale agreement executed on an arm's length basis between knowledgeable and willing parties, adjusted by expenses attributable to the sale of assets or, when there is no firm sale agreement, based on the market price of an active market, or on the latest transaction price involving similar assets.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine an asset's or CGU recoverable amount since the last impairment loss was recognized. Any reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

The following assets have specific characteristics for impairment testing:

- <u>Goodwill:</u> Goodwill is tested for impairment annually at the reporting date or before when circumstances indicate that the carrying amount may be impaired. Where the recoverable amount is lower than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

- <u>Intangible assets:</u> Intangible assets with indefinite useful lives are tested for impairment annually at the reporting date either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying amount may be impaired.

- <u>Determination of value in use:</u> The key assumptions used to estimate value in use are: (i) revenues (projected considering the growth in customer base, growth in market revenue against GDP and the Company's share of this market); (ii) variable costs and expenses (projected in accordance with the dynamics of the customer base, and fixed costs are projected in line with the historical performance of the Company, as well as with revenue growth); and (iii) capital investments (estimated considering the technological infrastructure necessary to enable the provision of services).

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Key assumptions were based on the Company's historical performance and reasonable macroeconomic assumptions grounded on financial market projections, documented and approved by Company's management.

The impairment test of the Company and subsidiaries' fixed and intangible assets, including goodwill, did not result in recognition of impairment losses for the years ended December 31, 2017 and 2016, since their estimated recoverable amount is greater than the net carrying amount as of the estimation date.

j) <u>Business combinations and goodwill</u>

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, recorded at fair value on the acquisition date, and the fair value of any noncontrolling interest in the acquiree.

For each business combination, the Company measures noncontrolling interests in the acquiree either at its fair value or on the basis of its proportional share in the identifiable net assets of the acquiree. Costs directly attributable to an acquisition are recorded as expenses, as incurred.

Upon acquiring a business, the Company assesses financial assets acquired and liabilities assumed so as to classify and allocate them in accordance with contractual terms, economic circumstances and relevant conditions on the acquisition date, including the segregation, by the acquiree, of embedded derivatives existing in host contracts in the acquiree.

In the event a business combination is conducted in stages, the ownership interest previously held in the acquiree's capital is reassessed at fair value on the date control is acquired, and any impacts are recognized in the income statement.

Any contingent portion to be transferred by the acquirer shall be recognized at fair value on the acquisition date. Subsequent changes in the fair value of the contingent portion to be considered as an asset or liability is recognized in the income statement. Contingent consideration on acquisition of a business that is not classified as equity is subsequently measured at fair value through profit or loss, whether or not included in the scope of IFRS 9 Financial Instruments.

Goodwill is initially measured as excess transferred payment amount in relation to acquired net assets (identifiable net assets acquired and liabilities assumed). If consideration is lower than fair value of acquired net assets, the difference must be recognized as gain in the income statement.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that CGU is disposed of, the goodwill associated with that operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is allocated based on the relative fair values of the disposed operation and the portion of the CGU retained.

k) Financial Instruments – Initial recognition and subsequent measurement

k.1) Financial assets

Initial recognition and measurement

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Financial assets are classified at initial recognition (when it becomes part of the instrument's contractual provisions), as: (i) fair value through profit or loss; (ii) loans and receivables; (iii) investments held to maturity; (iv) financial assets available for sale or (v) derivatives classified as effective hedge instruments, as applicable.

All financial assets are initially recognized at fair value, plus, in the case of investment that is not determined at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the financial asset.

The Company’s consolidated financial assets include cash and cash equivalents, trade accounts receivable, short-term investments pledged as collateral and derivative financial instruments.

Subsequent measurement

Subsequent measurement of financial assets depends on their classification, as follows:

Financial assets at fair value through profit or loss: These include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss: (i) financial assets are classified as held for trading if acquired to be sold within short term. This category includes derivative financial instruments contracted by the Company which do not meet the hedge accounting criteria set out by the corresponding standard; and (ii) financial assets at fair value through profit or loss are stated in balance sheets at fair value with their corresponding gains or losses recognized in the income statements.

Loans and receivables: these refer to non-derivative financial assets with fixed or determinable payments, however not traded in an active market. After initial measurement, these financial assets are stated at amortized cost, using the effective interest method, less impairment, where applicable. Amortized cost is calculated taking into account any discount or “premium” on acquisition and fees or costs incurred.

Amortization by the effective interest method and impairment losses are included in the financial income line in the income statement, if applicable.

Financial assets available for sale: These are non-derivative financial assets not classified as: (i) loans and receivables; (ii) investments held to maturity; or (iii) financial assets at fair value through profit or loss. These financial assets include equity and debt instruments. Debt instruments in this category are those which are intended to be held for an indefinite period and can be sold to meet liquidity needs or in response to changes in market conditions.

After initial measurement, financial assets available for sale are measured at fair value, with unrealized gains and losses being recognized directly in other comprehensive income until such time as the investment is written off, except for impairment losses, interest calculated using the effective interest method and gains or losses due to exchange variations on monetary assets, which are recognized directly in the income statement for the year.

When the investment is written-off or when a loss is determined due to impairment, the cumulative gains or losses which were previously recognized in other comprehensive income should be recognized in the statement of income.

The fair value of financial assets available for sale denominated in foreign currency is measured in the foreign currency and translated at the spot exchange rate at financial statements date. Changes in fair value attributable to translation differences that result from a change in amortized cost of the asset are recognized in the income statement, and other variations are recognized directly in equity.

Derecognition

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A financial asset (or, whenever the case, a part of a financial asset, or a part of a group of similar financial assets) is derecognized when:

- The rights to receive the cash flows from the asset have expired;

- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Company has transferred substantially all the risks and rewards of the asset, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

k.2) Impairment of financial assets

The Company and its subsidiaries evaluate, at the balance sheet date, if there is any objective evidence indicating that the financial asset or group of financial assets is not recoverable. A loss only exists if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset (a "loss event" occurred) and such event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reasonably estimated.

The carrying amount of an asset is reduced by a provision and the loss amount is recognized in the income statement. If, in a subsequent year, estimated impairment increases or decreases due to an event after impairment recognition, impairment loss previously recognized will be adjusted accordingly. Should a written-off asset be recovered in the future, such recovery is recognized in the income statement.

k.3) Financial liabilities

Initial recognition and measurement

Upon initial recognition, the Company's financial liabilities are classified in the following categories: financial liabilities measured at fair value through profit or loss and other financial liabilities.

Financial liabilities are initially recognized at fair value plus, in the case of loans and financing, transaction cost directly attributable thereto.

The Company's consolidated financial liabilities include trade accounts payable, loans and financing, debentures, finance lease agreements, contingent payments and derivative financial instruments.

Subsequent measurement

Measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss: These include financial liabilities designated upon initial recognition at fair value through profit or loss. This category also includes derivative financial instruments contracted which do not meet the hedge accounting criteria set out by the corresponding standard.

For the years ended December 31, 2017 and 2016, the Company and its subsidiaries did not record any financial liability at fair value through profit or loss upon initial recognition.

Loans and financing: After initial recognition, loans and financing subject to interest are subsequently measured at amortized cost, using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate amortization process.

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Derecognition

A financial liability is derecognized when the obligation has been revoked, cancelled or has expired.

When an existing financial liability is replaced by another of the same lender, and the terms of the instruments are substantially different, or when the terms of an existing debt instrument are substantially modified, this replacement or modification is treated as derecognition of the original liability and recognition of a new liability, and the difference in the corresponding carrying amounts is recognized in the income statement.

k.4) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liability will take place (i) in the principal market for the asset or liability; or (ii) in the absence of a principal market, in the most advantageous market for that asset or liability.

The Company and or its subsidiaries must have access to the principal (or most advantageous) market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing an asset or liability, assuming that market participants act in their best economic interests.

Fair value measurement of a non-financial asset takes into consideration the capacity of a market participant to generate economic benefits through the best use of the asset, or selling it to another market participant that would also make the best use of the asset.

The Company and subsidiaries use adequate valuation techniques in the circumstances and for which there is sufficient data to measure the fair value, maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

For assets and liabilities recurrently recognized in the financial statements, the Company determines whether there were transfers between the hierarchy levels, revaluating the classification (based on the lowest level input that is significant to the overall fair value measurement) at the end of each reporting period.

For the purposes of fair value disclosures, the Company and its subsidiaries determined classes of assets or liabilities based on the nature, characteristics and risks of those assets or liabilities and the fair value hierarchy level, as mentioned above.

k.5) Financial instruments - net

Financial assets and liabilities are presented net in the balance sheet if, and only if, there is a current enforceable legal right to offset the amounts recognized and if there is an intention to offset or realize the asset or settle the liability simultaneously.

l) Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments, such as currency and interest rate swaps or currency nondeliverable forward contracts to hedge against currency risks.

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Derivative financial instruments designated in hedge transactions are initially recognized at fair value on the date on which the derivative contract is entered into, and subsequently revalued also at fair value. Derivatives are presented as financial assets when the fair value of the instrument is positive and as financial liabilities when the fair value of the instrument is negative.

Any gains or losses resulting from changes in fair value of derivatives during the year are posted directly to the income statement, except for the effective portion of cash flow hedges, which is recognized directly in equity as other comprehensive income and subsequently reclassified to P&L when the hedged item affects P&L.

Inception initial recognition of a hedge relationship, the Company formally designate and documents the hedge relationship to which it wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk, the nature of unhedged risks, the prospective statement of hedge effectiveness and how the Company shall assess the effectiveness of changes in the hedging instrument’s fair value in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk.

For the purpose of hedge accounting, hedges are classified as cash flow hedges and fair value hedges.

l.1) <u>Cash flow hedges</u>

Cash flow hedges meeting the recording criteria are accounted for as follows: (i) the portion of gain or loss from the hedge instrument determined as effective hedge shall be recognized directly in equity (other comprehensive income), and (ii) the ineffective portion of gain or loss from the hedge instrument shall be recognized in the income statement.

When the Company’s documented risk management strategy for any given hedge relationship excludes from the hedge effectiveness evaluation any particular component of gain or loss or the corresponding cash flows from the hedge instrument, that gain or loss component is recognized in financial income (expenses).

Amounts recorded in other comprehensive income are immediately transferred to the income statement when the hedged transaction affects P&L. When a hedged item is the cost of a non-financial asset or liability, amounts recorded in equity are transferred at the initial carrying amount of the non-financial assets and liabilities.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge fails to meet the hedge accounting criteria, any cumulative gain or loss previously recognized in other comprehensive income remains separately in equity until the forecast transaction occurs or the firm commitment is fulfilled.

The Company's contracts are classified as cash flow hedges when they provide protection against changes in cash flows that are attributable to a particular risk associated with a recognized liability that may affect the profit or loss and fair value when they provide protection against exposure to changes in the fair value of the identified part of certain liabilities that is attributable to a particular risk (exchange variation) and may affect the profit or loss.

l.2) Fair value hedges

Fair value hedges meeting the accounting criteria are accounted for as follows: (i) gain or loss from changes in fair value of a hedge instrument shall be recognized in the income statement as finance costs; and (ii) gain or loss from a hedged item attributable to the hedged risk shall adjust the recorded amount of the hedged item to be recognized in the income statement, as finance costs.

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For fair value hedges relating to items carried at amortized cost, any adjustment to carrying amount is amortized through profit or loss over the remaining term of the hedge using the effective interest method. The effective interest rate amortization may begin as soon as any adjustment exists and no later than the point that the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in the income statement.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

l.3) Classification between current and noncurrent

Derivative financial instruments are classified as current and noncurrent or segregated into short and long term portions based on an evaluation of the contractual cash flows.

When the Company maintains a derivative as economic hedge (and does not apply hedge accounting), for a period exceeding 12 months after balance sheet date, the derivative is classified as noncurrent (or segregated into current and noncurrent portions), in line with the classification of the corresponding item.

Derivative instruments that are designated as effective hedging instruments are classified consistently with the classification of the underlying hedged item.

The derivative instrument is segregated into current and noncurrent portions only when amounts can be reliably allocated.

m) Loans and financing

Loans and financing obtained are initially recognized at fair value, net of costs incurred to obtain them and subsequently measured at amortized cost (plus charges and pro rata interest), considering the effective interest rate of each operation.

These are classified as current, unless the Company has an unconditional right to settle the liability for at least 12 months after year end.

n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a period of time exceeding 18 months to prepare for its intended use or sale form part of the cost of that asset.

All other borrowing costs are recorded in the period they are incurred. Borrowing costs include interest and other costs incurred by an entity in connection with the borrowing of funds.

In 2017 and 2016, the Company did not capitalize amounts related to borrowing costs.

o) Interest on equity and dividends

o.1) Interest on equity

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Brazilian legislation allows companies to pay interest on equity, which is similar to payment of dividends; however, this is deductible for income tax calculation purposes. In order to comply with Brazilian tax legislation the Company and its subsidiaries provision, in its accounting records the amount due to match against the financial expenses account in the income statement for the year. For the presentation of these financial statements, that expense is reversed against a direct charge to equity, resulting in the same accounting treatment adopted for dividends. The distribution of interest on equity to shareholders is subject to withholding income tax at a 15% rate.

o.2) Dividends

Minimum mandatory dividends are stated in the balance sheet as legal obligations (provisions in current liabilities). Dividends in excess of such minimum amount, not yet approved in the Shareholders' Meeting, are recorded in equity as proposed additional dividends. After approval at the Shareholders' meeting, the dividends in excess of minimum mandatory are transferred to current liabilities, and classified as legal obligations.

p) Provisions

p.1) General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, when it is probable that economic benefits are required to settle the obligation and a reliable estimate of the value of the obligation can be made. Provisions are restated at the balance sheet date considering the likely amount of loss and the nature of each contingency.

Provisions for contingencies are presented at their gross amount, less the corresponding judicial deposits, and are classified as provisions for civil, labor, tax and regulatory contingencies.

Judicial deposits are classified as assets given that the conditions required for their net presentation with the provision do not exist.

p.2) Provisions for civil, labor, tax and regulatory legal claims

The Company is party to labor, tax, civil and regulatory administrative and legal proceedings and set up a provision for contingencies whose likelihood of loss was estimated as probable. The assessment of the likelihood of loss includes an analysis of available evidence, the hierarchy of laws, available case law, the latest court decisions law and their relevance in the legal system, as well as the opinion of outside legal counsel. Provisions are reviewed and adjusted considering changes in existing circumstances, such as the applicable statute of limitations, tax audit conclusions, or additional exposures identified based on new matters or court decisions.

p.3) Provision for decommissioning of assets

This refers to costs to be incurred due to returning sites to owners (locations intended for tower and equipment installation on leased property) in the same condition as these were found at the time of execution of the initial lease agreement.

These costs are provisioned at the present value of amounts expected to settle the obligation using estimated cash flows and are recognized as part of the cost of the corresponding asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to decommissioning of assets. The financial effect of the discount is recorded as incurred and recognized in the income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to, or deducted from, the cost of the asset.

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p.4) Contingent liabilities recognized in a business combination

A contingent liability recognized in business combination is initially measured at fair value.

q) Taxes

q.1) Current taxes

Current tax assets and liabilities for the current and prior years are measured at the estimated amount recoverable from, or payable to, the tax authorities. The tax rates and laws used in calculating the amounts referred to above are those in effect, or substantially in effect, at year end. In the balance sheet, current taxes are presented net of prepayments over the year.

Current income and social contribution taxes related to items directly recognized in equity are also recognized in equity. Management regularly assesses the tax position in circumstances in which tax regulation requires interpretation, and sets up provisions therefor when appropriate.

q.2) Deferred taxes

Deferred taxes arise from temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amount.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and losses, to the extent that taxable profit is likely to be available for realization of deductible temporary differences, and unused tax credits and losses are likely to be used, except: (i) when the deferred tax asset related to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction other than a business combination and does not impact, at the transaction date, the book profit, income or loss for tax purposes; and (ii) on deductible temporary differences related to investments in subsidiaries, where deferred tax assets are recognized only to the extent that it is probable that temporary differences will be reversed in the near future and taxable profit is likely be available so that temporary differences can be used.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit shall be available to allow all or part of the deferred tax asset to be used. Derecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized on all temporary tax differences, except: (i) when the deferred tax liability arises from initial recognition of goodwill, or an asset or liability in a transaction other than a business combination, and does not affect book profit or taxable profit or tax losses on the transaction date; and (ii) on temporary tax differences related to investments in subsidiaries, in which the temporary difference reversal period can be controlled and temporary differences are not likely to be reversed in the near future.

Deferred tax assets and liabilities are measured at the tax rate expected to be applicable for the year the asset will be realized or the liability will be settled, based on the rates provided in tax legislation and that were published as of year-end.

Deferred tax assets and liabilities are not discounted to present value and are classified in the balance sheet as noncurrent, irrespective of their expected realization.

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The tax effects of items recorded directly in equity are also recognized in equity. Deferred tax items are recognized based on the transaction which gave rise to that deferred tax, in comprehensive income or directly in equity.

Deferred tax assets and liabilities are presented net when there is a legal or constructive right to offset a tax asset against a tax liability and deferred taxes relate to the same taxpaying entity and are subject to the same tax authority.

q.3) Sales taxes

Revenues are recognized net of value added taxes, which from services rendered is subject to State Value-Added Tax (ICMS) or Service Tax (ISS) at the rates in force in each region as well as and to Social Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Social Contribution Tax on Gross Revenue for Social Security Financing (COFINS) taxation on a cumulative basis for revenue from telecommunication services.

Other revenue earned by the Company, including revenue from resale of goods, on a noncumulative basis, is taxed at for PIS, COFINS and by ICMS at the rates in force in each State.

Prepayments or recoverable amounts are stated in current or noncurrent assets, based on their estimated realization.

r) Other assets and liabilities

Assets are recognized in the balance sheet when it is likely that their future economic benefits will flow to the Company, and their cost or value can be reliably measured.

A liability is recognized in the balance sheet when the Company or its subsidiaries have a legal or constructive obligation as a result of a past event, the settlement of which is likely to generate an outflow of economic benefits.

Assets and liabilities are presented in the balance sheet classified as current or noncurrent.

An asset is classified as current when: (i) it is expected to be realized or is intended to be sold or used in the ordinary operational cycle; (ii) it is mainly held for trading purposes; (iii) it is expected to be realized within 12 months from the reporting period; or (iv) cash and cash equivalents, unless there are restrictions upon exchange thereof, i.e., when used to settle a liability within 12 months from the reporting period. All other assets are classified as noncurrent.

A liability is classified as current when: (i) it is expected to be settled in the ordinary operational cycle; (ii) it is mainly held for trading purposes; (iii) It is expected to be settled within 12 months from the reporting period; or (iv) there is no unconditional right to defer settlement of the liability within 12 months from the reporting period. All other liabilities are classified as noncurrent.

s) Present value adjustment of assets and liabilities

Current and noncurrent monetary assets and liabilities are adjusted to their present value when the effect on the overall financial statements is considered significant. The present value adjustment is calculated using contractual cash flows and the explicit, and sometimes implicit, interest rates of the respective assets and liabilities.

Accordingly, the interest rate embedded in revenues, expenses and related costs is discounted, so that these assets and liabilities are recognized on an accrual basis. This interest is subsequently reallocated to financial income and expenses in P&L through use of the effective interest method in relation to contractual cash flows. Implicit interest rates were determined based on assumptions, and accounting estimates are considered.

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t) Government grants and assistance

Government grants are recognized when there is reasonable certainty that the benefit will be received and that all the related conditions will be met. When the benefit refers to an expense item, it is recognized as revenue along the benefit period, on a systematic basis in relation to the costs the benefit it intends to offset.

When the Company receives non-monetary grants, the asset and the benefit are recorded at nominal amounts and reflected in the income statements over the expected useful life of the asset by equal annual installments. A loan or assistance is initially recognized or measured at fair value. A government grant is measured as the difference between the initial carrying amount of the loan and proceeds therefrom. A loan is subsequently measured in accordance with the applicable accounting policy.

When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as an additional government grant.

The financing lines with the Brazilian Development Bank (BNDES), with interest rates not exceeding those prevailing in the market, are classified under the scope of IAS 20/CPC 7, and are recorded at fair value based on market rates. Adjustment arising from the comparison of the amount measured based on the rate agreed upon is accounted for as deferred revenue (Note 19).

u) Revenue recognition

Revenues substantially correspond to value of considerations received or receivable arising from the provision of telecommunications or communications services, the sale of goods, advertising and other revenue, and are stated net of taxes, discounts or returns (in case of sale of goods) thereon. Revenues and expenses are stated on the accrual basis of accounting.

Revenue is recognized when it is probable that future economic benefits will flow to the Company or its subsidiaries, when it can be reliably measured, costs incurred in the transaction can be measured, the risks and rewards have been substantially transferred to the buyer and when specific criteria have been met for each of the Company's activities.

Consolidated revenues of the Company comprise basically telecommunication services regarding voice, data and digital services, broadband, TV and additional telecommunication services that are offered to customers through fixed-price traffic packs (paid on a monthly basis) or based on customers' consumption, remuneration for network usage, advertising and sale of goods.

u.1) Recognition of revenues from telecommunication services

Revenues from telecommunication, data and digital services, broadband services provided are recorded on an accrual basis based on the amounts agreed upon. Local and long-distance calls are billed by the measurement process under legislation in force. The services billed on fixed monthly amounts are calculated and accounted for on a straight-line basis. Unbilled revenues from the last billing up to the balance sheet date are recognized in the month in which the service is provided.

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Revenues related to sale of public phone cards and pay-as-you-go credit for cellphones as well as the respective taxes are deferred and recognized in the income statement to the extent that the services are effectively rendered.

Revenues from equipment lease contracts classified as finance lease agreement (TData's Soluciona TI product) are recognized on installation of equipment whereupon effective transfer of risk takes place. Revenue is recognized at present value of future minimum payments provided for in the agreement.

Revenues from services are basically subject to the following indirect taxes: ICMS or ISS (as applicable), PIS and COFINS.

u.2) Recognition of revenue and cost from sales of goods

Revenues and cost of sales (mobile phones, simcards and accessories) are recorded when risks and rewards inherent in such goods are transferred to buyers.

Sales made in own stores are recognized upon sale to end consumer. Revenues and costs of sales made by accredited dealers are deferred and recognized in P&L when the device is activated, limited to 90 days from the sale date.

u.3) Customer loyalty program

The Company has a loyalty points program that enables customers to accumulate points when they pay bills regarding the usage of the services offered. The accumulated points may be exchanged for telephone sets or services, conditional upon obtaining a minimum balance of points by customer. The consideration received is allocated to the cost of sets or services at fair value. The fair value of points is determined by dividing the amount of discount granted by the number of points necessary for the redemption based on the points program. The portion of revenue related to the fair value of the accumulated balance of points generated is deferred and recognized as revenue upon redemption of points.

The number of points to be accounted for is determined through statistical techniques that consider assumptions and historical data on expected redemption rates, expiration percentages and cancellation of points, among other factors. These estimates are subject to variations and uncertainties due to changes in the behavior of customer redemptions.

u.4) Membership fee and promotional campaigns

Participation fees paid for promotional campaigns by customers of the Company are deferred and recorded in P&L throughout the duration of such campaign.

u.5) Agreements combining more than one element

Commercial packages offered by the Company that combine different elements are analyzed to determine whether it is necessary to separate the different elements identified, adopting the recognition criterion that is most adequate to each situation. Total revenue generated by the package sale is distributed among its elements, based upon their respective fair values.

The fair value determination of each element then identified implies the need for complex estimates given the nature of the business. A possible change in fair values estimates could affect the distribution of revenues between components and consequently the deferred revenue.

u.6) Advertising

Revenues from advertising are recognized in income during the advertising period.

v) Financial income (expenses)

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These include interest, and monetary and exchange variations arising from short-term investments, derivative transactions, loans, financing, debentures, present value adjustments of transactions that generate monetary assets and liabilities and other financial transactions. These are recognized on an accrual basis when earned or incurred by the Company.

For all financial instruments measured at amortized cost and interest-yielding financial assets classified as available for sale, interest income or expense is recognized using the effective interest method, which exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

w) Post-retirement benefit plans

The Company and its subsidiaries individually sponsor pension funds of post-retirement benefits for active and retired employees, in addition to a multisponsor supplementary retirement plan and health care plan for former employees. Contributions are determined on an actuarial basis and recorded on an accrual basis. Liabilities relating to defined benefit plans are determined based on actuarial evaluations at each year end, in order to ensure that sufficient reserves have been set up for both current and future commitments.

Actuarial liabilities related to defined benefit plans were calculated using the projected unit credit method. Actuarial gains and losses are recognized immediately in equity (in other comprehensive income).

For plans with defined contribution characteristics, the obligation is limited to the contributions payable, which are recognized in the P&L in the respective accrual periods.

The asset or liability related to defined benefit plan to be recognized in financial statements corresponds to the present value of the obligation for the defined benefit (using a discount rate based on long-term

National Treasury Notes “NTNs”), less fair value of plan assets that will be used to settle the obligations. Plan assets are assets held by a privately-held supplementary pension plan entity. Plan assets are not available to the Company’s creditors or those of its subsidiaries and cannot be paid directly to the Company or its subsidiaries. The fair value is based on information on market prices and, in case of securities quoted, on purchase price disclosed. The value of any defined benefit asset then recognized is limited to the present value of any economic benefits available as a reduction in future plan contribution from the Company.

Actuarial costs recognized in the income statement are limited to the service cost and cost of interest on the defined benefit plan obligation. Any changes in the measurement of plan assets and obligations are initially recognized in other comprehensive income, and immediately reclassified to retained earnings in P&L.

The Company manages and individually sponsors a health care plan for retired employees and former employees with fixed contributions to the plan, in accordance with Law No. 9656/98 (which provides for private health care and health insurance plans). As provided for in articles 30 and 31 of said law, participants shall have the right to the health care plan in which they participated while they were active employees.

x) <u>Significant accounting judgments, estimates and assumptions</u>

The preparation of the financial statements requires management to make judgments, estimates and adopt assumptions supported by valuation bases used in accounting estimates. The accounting estimates involved in the preparation of these financial statements were based on objective and subjective factors, considering management’s judgment for determining the adequate amounts to be recorded in the financial statements.

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Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties inherent in their estimate process.

Significant assumptions concerning sources of uncertainty in future estimates and other significant sources of estimation uncertainty at the balance sheet date, involving a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are as follows:

x.1) Impairment of non-financial assets

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use. The calculation of fair value less cost to sell is based on information available on transactions for sale of similar assets or market prices less additional costs to dispose of the asset. The calculation of value in use is based on the discounted cash flow model. The recoverable amount is sensitive to the discount rate used in the discounted cash flow method, as well as expected future cash receipts and growth rate used for extrapolation purposes.

The Company regularly analyzes the performance of the defined cash generating unit in order to identify any impairment of goodwill and its other assets. Determination of the recoverable amount of the cash generating unit to which goodwill is attributed includes use of assumptions and estimates and requires use of significant accounting judgment and criterion.

x.2) Post-retirement benefit plans

The cost of pension plans with defined benefits and other post-employment health care benefits and the present value of the pension obligation are determined using actuarial valuation methods. Actuarial valuation involves use of assumptions about discount rates, future salary increases, mortality rates and future increases in pension and annuity benefits. The obligation for defined benefits is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis.

The mortality rate is based on publicly available mortality tables in the country. Future salary increases and pension increases are based on expected future inflation rates for the country.

x.3) Fair value of financial instruments

When the fair value of financial assets and liabilities stated in the balance sheet cannot be obtained in active markets, it will be determined using valuation techniques, including the discounted cash flow method. Data for these methods is based on those adopted in the market, whenever possible. However, when this is not feasible, a certain level of judgment is required for fair value determination. Judgment includes consideration of the inputs used, such as liquidity risk, credit risk and volatility. Changes in the assumptions about these factors could affect the reported fair value of financial instruments.

x.4) Property, plant and equipment and finite-lived intangible assets

The accounting treatment of investment in fixed and intangible assets includes estimating useful life period for depreciation purposes and the fair value at the date of acquisition, particularly for assets acquired in business combinations.

Useful life determination requires estimates regarding the expected technological developments and alternative uses of assets. The hypotheses related to the technological aspect and its future development imply a significant level of analysis, considering the difficulties in forecasting time and nature of future technological changes.

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x.5) Revenue recognition – Customer Loyalty Program

The Company estimates the fair value of points attributed under the customer loyalty program by applying statistic techniques. Inputs for the model include assumptions about expected redemption rates, the mix of products that will be available for future redemption and customers' preference in relation to points use. Since issued points do not expire, these estimates are subject to significant uncertainties.

x.6) Agreements combining more than one element

The fair value determination of each element in a multiple element agreement requires complex estimates given the nature of the business. A possible change in fair value estimates could affect the distribution of revenues between components and consequently the deferred revenues.

x.7) Taxes

There are uncertainties regarding the interpretation of complex tax regulations and the amount and timing of future taxable profits. The Company and its subsidiaries set up provisions, based on reasonable estimates, for the possible consequences of audits by tax authorities in respective jurisdictions in which they operate. The amount of these provisions is based on various factors, such as previous tax audit experience and different interpretations of tax regulations by the taxable entity and by the relevant tax authority. Such differences in interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Company or those of its subsidiaries.

The Company and its subsidiaries evaluate the recoverability of deferred tax assets based on estimates of future profits. This recoverability ultimately depends on the ability of the Company or its subsidiaries to generate taxable profits over the period in which the deferred tax asset is deductible. The analysis considers the reversal period of deferred tax liabilities, as well as estimates of taxable profits, based on updated internal projections reflecting the latest trends.

Determining the proper classification of the tax items depends on several factors, including an estimate of the period and the realization of the deferred tax asset and the expected date of payments of these taxes. The actual flow of receipt and payment of income tax could differ from estimates made by the Company and its subsidiaries, as a result of changes in tax laws or of unexpected future transactions that may impact tax balances.

x.8) Provisions for tax, labor, civil and regulatory proceedings

Provisions are recognized when the Company has a present obligation arising from a past event, settlement of which requires an outflow of resources rated as probable and when it can be reliably estimated. This obligation can be legal or constructive, derived from, among other factors, regulations, contracts, customary practices or public commitments that expose third parties to a valid expectation that the Company or its subsidiaries will assume certain responsibilities. The determination of the provision is based on the best estimate of the disbursement required to settle the corresponding obligation, considering the information available as of the closing date, including the opinion of independent experts, such as legal advisors.

x.9) Revenue recognition - revenue from unbilled services

The Company has billing systems for services with intermediate cut-off dates. Thus, at the end of each month there are revenues already received by the Company, but not effectively invoiced to its customers. These unbilled revenues are recorded based on estimates, which take into account historical consumption data, number of days elapsed since the last billing date, among others. Because historical data are used, these estimates are subject to significant uncertainties.

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y) Functional and reporting currency

The Company's functional and reporting currency is the Brazilian real. Transactions in foreign currency were translated at the exchange rate in force as of the date the transaction. Assets and liabilities denominated in foreign currencies are translated using the exchange rate at the balance sheet date. The exchange rate variations arising from transactions in foreign currencies are recognized in P&L as financial income or expenses. Gains and losses on the translation of foreign investments are recognized in the statement of comprehensive income.

z) Translation of transactions denominated in foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency (real) at the exchange rate (fix rate) in force as of the transaction date and subsequently re-measured based on the fix rates effective that, at December 31, 2017, were US$1.00 = R$3.3080, €1.00 = R$3.9676, and at December 31, 2016, were US$1.00 = R$3.2591, €1.00 = R$3.4351. Gains and losses resulting from the translation of these assets and liabilities due to exchange rate variation between transaction date and period end are recognized in the income statement.

aa) Employee profit sharing

The Company and its subsidiaries have obligations arising from employment contracts, recognizing these provisions during the year. Provisions are recorded to recognize the expense regarding employee profit sharing. These provisions are calculated based on qualitative and quantitative goals set by management and accounted for in specific accounts according to their function in groups of: Cost of services, Selling expenses and General and administrative expenses.

ab) Share-based payments

The Company and its subsidiaries measure the cost of transactions settled with employees and officers based on shares issued by parent company (Telefónica), by reference to the fair value of the shares at the date at which they are granted, using the binomial valuation model. This fair value is charged to the income statement over the period until the vesting date.

ac) Treasury shares

Own equity instruments that are repurchased (treasury stock) are recognized at cost and deducted from equity. No gains or losses are recognized in P&L on purchase, sale, issue or cancellation of the Company's own equity instruments.

ad) Segment reporting

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 consolidated on a consolidated basis, the Company and subsidiaries operate in a single operating segment, namely the provision of telecommunications services.

ae) Statement of cash flows and statement of value added

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The statement of cash flows was prepared in accordance with IAS 7/CPC 03 – Statement of Cash Flows using the indirect method, and reflects the changes in cash for the years reported.

The statement of value added (SVA) is shown as supplementary information, in compliance with Brazilian Corporation Law and was prepared in accordance with CPC09 – Statement of value added. The purpose of the statement of value added is to disclose the wealth generated by the Company during the year and the wealth distribution among its stakeholders.

4) CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Cash and banks	114,556	189,445	117,799	198,369
Short-term investments	3,566,617	4,486,182	3,932,539	4,906,741
Total	**3,681,173**	**4,675,627**	**4,050,338**	**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.

5) TRADE ACCOUNTS RECEIVABLE, NET

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Billed amounts	6,642,523	6,077,768	6,753,621	6,939,909
Unbilled amounts	2,137,645	1,898,630	2,481,364	1,930,708
Interconnection amounts	835,085	1,333,595	859,819	1,345,471
Amounts from related parties (Note 28)	175,201	177,741	201,021	190,906
Gross accounts receivable	**9,790,454**	**9,487,734**	**10,295,825**	**10,406,994**
Estimated impairment losses	(1,209,369)	(1,004,512)	(1,433,471)	(1,399,895)
Total	**8,581,085**	**8,483,222**	**8,862,354**	**9,007,099**
Current	8,413,403	8,282,685	8,588,466	8,701,688
Noncurrent	167,682	200,537	273,888	305,411

Consolidated balances of noncurrent trade accounts receivable include:

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- R$122,651 at December 31, 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 December 31, 2017, the impact of the present-value adjustment was R$16,011 (R$32,920 at December 31, 2016).

- R$45,031, at December 31, 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 December 31, 2017, the impact of the present-value adjustment was R$15,535 (R$10,268 at December 31, 2016).

- R$106,206, at December 31, 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 December 31, 2017, the impact of the present-value adjustment was R$33,614 (R$3,005 at December 31, 2016).

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

	Consolidated	
	12/31/17	12/31/16
Nominal amount receivable	434,743	611,384
Deferred financial income	(33,614)	(3,005)
Present value of accounts receivable	**401,129**	**608,379**
Estimated impairment losses	(154,666)	(344,738)
Net amount receivable	**246,463**	**263,641**

Current	140,257	158,767
Noncurrent	106,206	104,874

At December 31, 2017, the aging list of gross trade accounts receivable relating to “Soluciona TI” product is as follows:

	Consolidated	
	Nominal amount receivable	Present value of accounts receivable
Falling due within one year	229,981	229,981
Falling due between one year and five years	204,762	171,148
Total	**434,743**	**401,129**

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:

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	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Falling due	6,557,992	6,392,442	6,635,125	6,841,752
Overdue – 1 to 30 days	1,016,172	1,025,630	1,132,008	1,073,568
Overdue – 31 to 60 days	342,779	309,210	375,176	322,485
Overdue – 61 to 90 days	224,597	225,132	232,648	227,010
Overdue – 91 to 120 days	96,586	110,813	105,342	105,048
Overdue – over 120 days	342,959	419,995	382,055	437,236
Total	**8,581,085**	**8,483,222**	**8,862,354**	**9,007,099**

At December 31, 2017 and 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)**
Supplement to estimated losses (Note 24)	(1,667,359)	(1,843,775)
Reversal of estimated losses (Note 24)	441,617	495,554
Write-off due to use	2,032,062	2,166,252
Merger (Note 1.c.2)		-

	(160,720)	
Balance at 12/31/16	**(1,004,512)**	**(1,399,895)**
Supplement to estimated losses (Note 24)	(1,870,438)	(1,994,769)
Reversal of estimated losses (Note 24)	465,353	513,754
Write-off due to use	1,200,228	1,456,158
Business combinations (Note 1.c.1)	-	(8,719)
Balance at 12/31/17	**(1,209,369)**	**(1,433,471)**

6) INVENTORIES

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Materials for resale (1)	302,235	335,281	325,850	377,465
Materials for consumption	55,448	75,086	57,740	77,732
Other inventories	7,822	7,892	7,822	7,892
Gross total	**365,505**	**418,259**	**391,412**	**463,089**
Estimated losses from impairment or obsolescence (2)	(40,794)	(50,108)	(42,657)	(52,676)
Total	**324,711**	**368,151**	**348,755**	**410,413**

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

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

7) DEFERRED TAXES AND TAXES RECOVERABLE

a) Taxes recoverable

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
State VAT (ICMS) (1)	2,438,272	2,317,739	2,450,856	2,329,159
Income and social contribution taxes recoverable (2)	401,259	829,160	505,535	830,549
Withholding taxes and contributions (3)	212,264	131,915	238,355	157,371
PIS and COFINS	66,335	125,273	85,098	148,759
Fistel, INSS, ISS and other taxes	8,232	22,775	27,431	38,236
Total	**3,126,362**	**3,426,862**	**3,307,275**	**3,504,074**
Current	2,386,258	2,952,622	2,563,990	3,027,230
Noncurrent	740,104	474,240	743,285	476,844

(1) This includes credits of ICMS arising from the acquisition of property and equipment (subject to offsetting in 48 months); requests for refund of ICMS, which was paid under invoices that were cancelled subsequently; for the rendering of services; tax substitution; and tax rate difference; among others. Noncurrent consolidated amounts include credits arising from the acquisition of property and equipment of R$423,588 and R$370,770 on December 31, 2017 and 2016, respectively.

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

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

b) <u>Deferred taxes</u>

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

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

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			Company					
	Balances at 12/31/15	Income statement	Comprehensive income	Other	Merger (note 1 c.2)	Balances at 12/31/16	Income statement	Comprehens inco
Deferred tax assets (liabilities)								
Income and social contribution taxes on tax losses (1)	**-**	**1,376**	**-**	**-**	**-**	**1,376**	**587,374**	
Income and social contribution taxes on temporary differences (2)	**(155,951)**	**(716,769)**	**78,798**	**(1,516)**	**705,367**	**(90,071)**	**(1,264,191)**	**56,1**
Provisions for legal, labor, tax civil and regulatory contingencies	1,681,016	257,288	-	-	282,751	2,221,055	34,032	
Trade accounts payable and other provisions	535,001	6,702	-	-	66,455	608,158	(19,864)	
Customer portfolio and trademarks	256,056	(62,660)	-	-	119,695	313,091	(58,674)	
Estimated losses on impairment of accounts receivable	369,174	(82,284)	-	-	54,645	341,535	69,652	
Estimated losses from modems and other P&E items	170,132	(10,561)	-	-	122,696	282,267	(82,833)	
Pension plans and other	26,164	1,780	80,459	-	-	108,403	10,498	55,4

post-employment benefits								
Profit sharing	88,944	31,004	-	-	3,963	123,911	(23,268)	
Provision for loyalty program	32,604	(13,492)	-	-	-	19,112	(1,991)	
Accelerated accounting depreciation	10,865	13,168	-	-	-	24,033	(15,773)	
Estimated impairment losses on inventories	9,364	(11,757)	-	-	13,620	11,227	(107)	
Derivative transactions	47,911	2,891	(1,633)	-	10,523	59,692	(34,349)	8
Licenses	(1,204,226)	(216,330)	-	-	-	(1,420,556)	(216,330)	
Effects of goodwill generated in the merger of Vivo Part.	(809,600)	(54,720)	-	-	-	(864,320)	(5,461)	
Goodwill from Spanish and Navytree	(337,535)	-	-	-	-	(337,535)	-	
Goodwill from Vivo Part.	(837,918)	(167,202)	-	-	-	(1,005,120)	(167,203)	
Goodwill from GVT Part.	-	(522,228)	-	-	-	(522,228)	(696,305)	
Technological Innovation Law	(193,146)	52,206	-	-	-	(140,940)	43,407	
Income and social contribution taxes on other temporary differences (3)	(757)	59,426	(28)	(1,516)	31,019	88,144	(99,622)	(1
Total deferred tax assets (liabilities), noncurrent	**(155,951)**	**(715,393)**	**78,798**	**(1,516)**	**705,367**	**(88,695)**	**(676,817)**	**56,**
Deferred tax assets	**3,535,671**					**4,425,658**		
Deferred tax liabilities	**(3,691,622)**					**(4,514,353)**		
Deferred tax assets (liabilities), net	**(155,951)**					**(88,695)**		
Represented in the balance sheet as								

follows:

Deferred tax assets	**-**	**-**
Deferred tax liabilities	**(155,951)**	**(88,695)**

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	Consolidated							
	Balances at 12/31/15	Income statement	Comprehensive income	Other	Balances at 12/31/16	Income statement	Comprehensive income	Bu comb (Not
<u>Deferred tax assets (liabilities)</u>								
Income and social contribution taxes on tax losses (1)	**26,519**	**(12,448)**	**-**	**-**	**14,071**	**710,411**	**-**	
Income and social contribution taxes on temporary differences (2)	**685,071**	**(748,969)**	**78,840**	**(1,516)**	**13,426**	**(1,251,816)**	**58,192**	
Provisions for legal, labor, tax civil and regulatory contingencies	1,954,236	276,100	-	-	2,230,336	68,399	-	
Trade accounts payable and other provisions	687,124	(10,001)	-	-	677,123	(25,706)	-	
Estimated losses on impairment of accounts receivable	447,018	(88,213)	-	-	358,805	76,155	-	
Customer portfolio and trademarks	343,107	(30,015)	-	-	313,092	(58,674)	-	
Estimated losses from modems and other P&E items	294,945	(10,268)	-	-	284,677	(83,736)	-	
Pension plans and other post-employment	26,285	1,633	80,501	-	108,419	8,630	57,485	

benefits								
Profit sharing	106,198	19,058	-	-	125,256	(15,210)	-	
Provision for loyalty program	32,604	(13,492)	-	-	19,112	(1,991)	-	
Accelerated accounting depreciation	10,865	13,168	-	-	24,033	(15,773)	-	
Estimated impairment losses on inventories	10,707	1,392	-	-	12,099	(347)	-	
Derivative transactions	59,408	2,358	(1,633)	-	60,133	(35,084)	822	
Licenses	(1,204,226)	(216,330)	-	-	(1,420,556)	(216,330)	-	
Effects of goodwill generated in the acquisition of Vivo Part.	(809,600)	(54,720)	-	-	(864,320)	(5,461)	-	
Goodwill from Spanish and Navytree	(337,535)	-	-	-	(337,535)	-	-	
Goodwill from Vivo Part.	(837,918)	(167,202)	-	-	(1,005,120)	(167,203)	-	
Goodwill from GVTPart.	-	(522,228)	-	-	(522,228)	(696,305)	-	
Technological Innovation Law	(193,146)	52,206	-	-	(140,940)	43,407	-	
Income and social contribution taxes on other temporary differences (3)	94,999	(2,415)	(28)	(1,516)	91,040	(126,587)	(115)	
Total deferred tax assets (liabilities), noncurrent	**711,590**	**(761,417)**	**78,840**	**(1,516)**	**27,497**	**(541,405)**	**58,192**	**1**
Deferred tax assets	**4,153,054**				**4,541,952**			
Deferred tax liabilities	**(3,441,464)**				**(4,514,455)**			
Deferred tax assets (liabilities), net	**711,590**				**27,497**			

Represented in the balance sheet as follows:

; Deferred tax assets	**711,590**	**27,497**
; Deferred tax liabilities	**-**	**-**

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

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

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

At December 31, 2017, deferred tax credits (income and social contribution tax losses) were not recognized in indirect subsidiaries' (Innoweb anda TGLog) accounting records, in the amount of R$11,938 (R$2,993 at December 31, 2016), as it is not probable that future taxable profits shall be available for these subsidiaries to benefit from such tax credits.

Expected realization of deferred taxes, net, noncurrent.

The amounts are based on projections subject to change in the future.

Year	Company	Consolidated
2018	1,768,735	1,904,953
2019	543,722	685,775
2020	332,851	374,379
2021	426,700	442,867
2022	694,083	704,303
2023 em diante	(4,475,416)	(4,450,194)
Total	(709,325)	(337,917)

8) JUDICIAL DEPOSITS AND GARNISHMENTS

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

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Judicial deposits				
Tax	4,074,517	3,698,966	4,230,917	3,758,787
Labor	864,022	1,040,635	885,338	1,051,430
Civil	1,203,297	1,107,929	1,205,807	1,109,001
Regulatory	200,627	276,604	200,627	276,604
Total	**6,342,463**	**6,124,134**	**6,522,689**	**6,195,822**
Garnishments	137,823	152,948	141,116	155,744
Total	**6,480,286**	**6,277,082**	**6,663,805**	**6,351,566**
Current	324,465	302,349	324,638	302,424
Noncurrent	6,155,821	5,974,733	6,339,167	6,049,142

On December 31, 2017, the Company and its subsidiaries had a number of tax-related judicial deposits in the consolidated amount of R$4,230,917 (R$3,758,787 at December 31, 2016). In Note 18, we provide further details on issues arising from the most significant judicial deposits.

The table below presents the composition of the balances as of December 31, 2107 and 2016 of the tax judicial deposits (segregated and summarized by tribute).

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	Consolidated	
	12/31/17	12/31/16
Contribution to Empresa Brasil de Comunicação (EBC)	1,238,068	1,053,867
Telecommunications Inspection Fund (FISTEL)	1,161,061	1,095,789
Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL)	518,474	449,988
Universal Telecommunication Services Fund (FUST)	484,649	456,977
Social Contribution Tax for Intervention in the Economic Order (CIDE)	270,612	176,557
State Value-Added Tax (ICMS)	273,264	212,652
Social Security, work accident insurance (SAT) and funds to third parties (INSS)	134,688	128,458
Withholding Income Tax (IRRF)	45,846	73,848
Contribution tax on gross revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS)	37,965	35,570
Other taxes, charges and contributions	66,290	75,081
Total	**4,230,917**	**3,758,787**

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

- Contribution to Empresa Brasil de Comunicação (EBC)

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

- Telecommunications Inspection Fund (FISTEL)

The Company has legal proceedings involving the collection by ANATEL of the Installation Inspection Fee ("TFI") on the renewal of the validity of the license, as well as the exclusion of the calculation basis of the

Installation Inspection Fee ("TFI") and Inspection and Operation Fee ("TFF") of mobile stations that do not belong to it.

9) PREPAID EXPENSES

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Advertising and publicity	335,700	258,212	336,295	258,212
Insurance	36,672	39,008	36,941	39,558
Rental	29,713	19,276	29,713	19,276
Software and networks maintenance	7,422	10,204	12,375	12,283
Taxes, financial charges, personal and other	37,475	45,148	54,231	50,193
Total	**446,982**	**371,848**	**469,555**	**379,522**
Current	425,298	336,508	446,439	343,092
Noncurrent	21,684	35,340	23,116	36,430

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10) OTHER ASSETS

	Company		Consolidated	
	12/31/17	12/31/16	12/31/17	12/31/16
Advances to employees and suppliers	53,103	81,325	58,456	83,634
Related-party receivables (Note 28)	557,211	311,633	166,733	250,679
Receivables from suppliers	114,015	96,065	114,015	99,166
Subsidy on handset sales	37,258	30,491	37,258	30,491
Surplus from post-employment benefit plans (Note 30)	9,616	8,838	9,833	9,041
Other amounts receivable	17,024	20,391	24,037	22,649
Total	**788,227**	**548,743**	**410,332**	**495,660**
Current	701,882	495,380	321,397	440,095
Noncurrent	86,345	53,363	88,935	55,565

11) INVESTMENTS

a) <u>Information on investees</u>

The Company holds equity interests in wholly-owned subsidiaries (subsidiaries) and jointly-owned subsidiaries. Below, we present the main information of the Company's investees.

TData: The Company's wholly-owned subsidiary, headquartered in Brazil, has the purpose of providing and operating value-added services (VAS); integrated business solutions in telecommunications and related activities; technical assistance and maintenance of telecommunications equipment and networks and project design.

TData is the parent company of TGLog (acquired on October 28, 2015 for R$15,811) and Terra Networks (acquired on July 3, 2017 for R$250,000).

GVTPart: A wholly-owned subsidiary of the Company up to March 31, 2016. GVTPart. was controlling shareholder of GVT and headquartered in Brazil, the business purpose of GVTPart is to hold interest in other domestic or foreign companies as a partner, shareholder or member. GVT provides landline telephone, data, multimedia communication and pay-tv services in the entire Brazilian territory. GVTPart. was merged into the Company on April 1, 2016 (Note 1c2).

POP: The Company's direct subsidiary on April 1, 2016 (Note 1c2), is engaged in the performance of activities related to information technology, internet and any other networks; hosting services and the commercial operation of websites and portals; handling, provision and storage of information and data; sale of software, hardware, telecommunication equipment and electronics; development, licensing and maintenance of information systems and routines; development of electronic commerce; creation and administration of own and/or third-party databases; sale of publicity and advertising and, banner vehicles; and holding interest in other companies as member or shareholder, and may also form consortia and/or other forms of association. Until March 31, 2016, POP was controlled by GVT (Note 1c2).

POP is the wholly-owned subsidiary of Innoweb Ltda ("Innoweb"), whose business purpose is to operate as an internet provider; performing information activities; all forms of telecommunications activities, including the transmission of voice, data and information; sale of telecommunications and electronic equipment and/or accessories; and holding interest in other companies as member or shareholder, and may also form consortia and/or other forms of association.

Aliança: Jointly-controlled subsidiary, headquartered in Amsterdam, Netherlands, with 50% interest held by the Company, this entity is engaged in the acquisition and management of subsidiaries, and holding interest in companies of the telecommunications industry.

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AIX: Jointly-controlled subsidiary headquartered in Brazil, with 50% interest held by the Company, this entity is engaged in holding interest in Consórcio Refibra, and in performing activities related to the direct and indirect operation of activities associated with the construction, completion and operation of underground networks for optical fiber ducts.

ACT: Jointly-controlled subsidiary headquartered in Brazil, with 50% interest held by the Company, this entity is engaged in holding interest in Consórcio Refibra, and in performing activities related to the rendering of technical support services for the preparation of projects and completion of networks, by means of studies required to make them economically feasible, and monitor the progress of Consortium-related activities.

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

	At 12/31/17					At 12/31/16				
	Consolidated wholly-owned subsidiaries		Jointly-controlled subsidiaries			Consolidated wholly-owned subsidiaries		Jointly-controlled subsidiaries		
	TData	POP	Aliança	Cia AIX	Cia ACT	TData	POP	Aliança	Cia AIX	Cia ACT
Equity interest	**100.00%**	**100.00%**	**50.00%**	**50.00%**	**50.00%**	**100.00%**	**100.00%**	**50.00%**	**50.00%**	**50.00%**
Summary of balance sheets:										
Current assets	2,928,721	33,566	167,540	22,431	17	1,414,039	27,407	145,121	20,337	15
	749,694	52,761	-	13,410	-	362,195	52,016	-	12,879	-

Noncurrent assets										
Total assets	**3,678,415**	**86,327**	**167,540**	**35,841**	**17**	**1,776,234**	**79,423**	**145,121**	**33,216**	**15**
Current liabilities	1,893,271	47,337	58	4,084	1	633,631	49,535	101	4,029	1
Non-current liabilities	185,794	24	-	4,811	-	63,139	-	-	5,415	-
Equity	1,599,350	38,966	167,482	26,946	16	1,079,464	29,888	145,020	23,772	14
Total liabilities and equity	**3,678,415**	**86,327**	**167,540**	**35,841**	**17**	**1,776,234**	**79,423**	**145,121**	**33,216**	**15**
Investment Book value	**1,599,350**	**38,966**	**83,741**	**13,473**	**8**	**1,079,464**	**29,888**	**72,510**	**11,886**	**7**

	2017					2016					
	Consolidated wholly-owned subsidiaries		Jointly-controlled subsidiaries			Consolidated wholly-owned subsidiaries			Jointly-controlled subsidiaries		
Summary of Income Statements:	TData	POP	Aliança	Cia AIX	Cia ACT	TData	POP (1)	GVTPart. (2)	Aliança	Cia AIX	C AC
Net operating income	4,023,145	29,512	-	45,622	82	2,538,270	32,233	1,531,692	-	42,840	
Operating costs and expenses	(2,311,211)	(16,049)	(43)	(43,448)	(80)	(1,448,225)	(20,142)	(1,300,347)	(155)	(41,760)	(7
Financial income (expenses), net	56,506	1,392	27	1,686	-	86,760	1,217	(41,146)	41	1,980	
Income and social contribution taxes	(475,614)	(5,777)	-	(686)	-	(404,171)	(6,010)	(57,958)	-	(464)	(
Net income (loss) for the year	**1,292,826**	**9,078**	**(16)**	**3,174**	**2**	**772,634**	**7,298**	**132,241**	**(114)**	**2,596**	
Equity pickup, according to interest held	**1,292,826**	**9,078**	**(8)**	**1,587**	**1**	**772,634**	**7,298**	**132,241**	**(57)**	**1,298**	

1) Includes the consolidated result of the POP for the period from 04/01 to 12/31/16.

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

b) Changes in investments

	TData (1)	POP (1)	GVTPart. (1)	Aliança (2)	AIX (2)	ACT (2)	Goodwill (3)	Surplus value of net assets acquired attributed to the Company	Other investments (4)	**invest - Co**
Balances at 12/31/15	**1,056,305**	**-**	**7,674,444**	**89,799**	**10,099**	**4**	**13,049,199**	**2,461,583**	**1,259**	**24,3**
Equity pick-up	772,634	7,298	132,241	(57)	1,298	3	-	(67,641)	-	**8**
Merger (Note 1.c.2)	-	22,590	(7,806,685)	-	-	-	(12,837,141)	(2,393,942)	-	**(23,01**
Dividends and interest on equity	(749,395)	-	-	-	489	-	-	-	-	**(74**
Other comprehensive income	(80)	-	-	(17,232)	-	a -	-	-	83	**(1**
Balances at 12/31/16	**1,079,464**	**29,888**	**-**	**72,510**	**11,886**	**7**	**212,058**	**-**	**1,342**	**1,4**
Equity pick-up	1,292,826	9,078	-	(8)	1,587	1	-	-	-	**1,3**
Equity transactions (Note 1 c.1)	(59,029)	-	-	-	-	-	-	-	-	**(5**
Dividends and interest on equity	(707,794)	-	-	-	-	-	-	-	-	**(70**
Other comprehensive income	(6,117)	-	-	11,239	-	-	-	-	338	
Balances at 12/31/17	**1,599,350**	**38,966**	**-**	**83,741**	**13,473**	**8**	**212,058**	**-**	**1,680**	**1,9**

(1) Wholly-owned entities.

(2) Jointly-controlled subsidiaries.

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(3) Goodwill: (i) R$212,058 from partial spin-off of “Spanish and Figueira”, which was reversed to the Company upon merger with Telefônica Data Brasil Holding S.A. (TDBH) in 2006; and (ii) R$12,837,141 originated from the acquisition of GVTPart. (Note 1 c3).

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

12) PROPERTY, PLANT AND EQUIPMENT

a) Breakdown and changes

	Company						
	Switching and transmission equipment	Terminal equipment / modems	Infrastructure	Land	Other P&E	Estimated losses (1)	Assets a facilities un construct
Annual depreciation rate (%)	**2.50 to 25.00**	**6.67 to 66.67**	**2.50 to 66.67**		**10.00 to 25.00**		
Balances and changes:							
Balance at 12/31/15	**14,476,070**	**1,530,793**	**3,371,532**	**313,105**	**711,085**	**(155,277)**	**1,771,7**
Additions	355,291	88,653	157,101	215	304,176	(19,858)	5,521,1
Write-offs, net (2)	(20,447)	(467)	(98,879)	(202)	(751)	21,708	(36,4
Net transfers	3,693,341	693,367	361,905	-	(38,238)	(3)	(4,776,7
Depreciation	(2,581,663)	(1,303,734)	(504,787)	-	(357,263)	-	

(Note 24)							
Merger (Note 1.c.2)	6,309,033	1,572,567	428,622	2,601	159,039	(331,956)	221,1
Balance at 12/31/16	**22,231,625**	**2,581,179**	**3,715,494**	**315,719**	**778,048**	**(485,386)**	**2,700,8**
Additions	42,997	141,132	91,160	550	238,989	(37,278)	6,062,6
Write-offs, net	(88,764)	(7,602)	(6,691)	(1,916)	(2,571)	162,224	(17,5
Net transfers	3,634,293	1,471,431	619,008	-	15,453	132,578	(5,891,9
Depreciation (Note 24)	(3,011,178)	(1,466,459)	(541,289)	-	(264,237)	-	
Balance at 12/31/17	**22,808,973**	**2,719,681**	**3,877,682**	**314,353**	**765,682**	**(227,862)**	**2,854,0**
At 12/31/16							
Cost	70,781,587	15,246,317	14,944,006	315,719	4,181,817	(485,386)	2,700,8
Accumulated depreciation	(48,549,962)	(12,665,138)	(11,228,512)	-	(3,403,769)	-	
Total	**22,231,625**	**2,581,179**	**3,715,494**	**315,719**	**778,048**	**(485,386)**	**2,700,8**
At 12/31/17							
Cost	74,092,109	16,797,604	15,628,384	314,353	4,404,945	(227,862)	2,854,0
Accumulated depreciation	(51,283,136)	(14,077,923)	(11,750,702)	-	(3,639,263)	-	
Total	**22,808,973**	**2,719,681**	**3,877,682**	**314,353**	**765,682**	**(227,862)**	**2,854,0**

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	Consolidated						
	Switching and transmission equipment	Terminal equipment / modems	Infrastructure	Land	Other P&E	Estimated losses (1)	Asse facilities constr
Annual depreciation rate (%)	**2.50 to 25.00**	**6.67 to 66.67**	**2.50 to 66.67**		**10.00 to 25.00**		
Balances and changes:							
Balance at 12/31/15	**20,935,963**	**3,146,109**	**3,655,951**	**315,705**	**1,066,452**	**(494,149)**	**1,85**
Additions	634,635	203,775	159,081	215	288,666	(19,962)	5,54
Write-offs, net (2)	(24,236)	(816)	(99,437)	(201)	3,059	28,539	(3
Net transfers	3,473,332	677,572	523,995	-	(159,702)	(3)	(4,62
Depreciation (Note 24)	(2,787,820)	(1,438,333)	(514,383)	-	(379,119)	-	
Balance at 12/31/16	**22,231,874**	**2,588,307**	**3,725,207**	**315,719**	**819,356**	**(485,575)**	**2,73**
Additions	42,999	141,132	91,160	550	259,620	(37,374)	6,08
Write-offs, net	(88,766)	(7,602)	(6,966)	(1,916)	(2,522)	162,319	(1
Net transfers	3,634,293	1,471,431	619,008	-	34,093	132,578	(5,91
Depreciation (Note 24)	(3,011,291)	(1,468,936)	(544,454)	-	(284,983)	-	
Business Combination (Note 1.c.1)	-	-	1,342	-	4,888	-	
	22,809,109						**2,88**

Balance at 12/31/17		**2,724,332**	**3,885,297**	**314,353**	**830,452**	**(228,052)**	
At 12.31.16							
Cost	70,789,534	15,294,619	15,023,890	315,719	4,308,718	(485,575)	2,73
Accumulated depreciation	(48,557,660)	(12,706,312)	(11,298,683)	-	(3,489,362)	-	
Total	**22,231,874**	**2,588,307**	**3,725,207**	**315,719**	**819,356**	**(485,575)**	**2,73**
At 12.31.17							