

TELEFONICA BRASIL S.A.  
Form 6-K  
August 02, 2017

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

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

**For the month of July, 2017**

**Commission File Number: 001-14475**

---

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

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

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

---

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

Form 20-F

Form 40-F

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

Yes

No

Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

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

Yes

No

X

(A free translation of the original in Portuguese)

**Telefônica Brasil S.A.**

**Quarterly Information (ITR)**

**at June 30, 2017**

**and report on review of quarterly and semester information**



(A free translation of the original in Portuguese)

## **Report on review of quarterly information**

To the Board of Directors and Stockholders

Telefônica Brasil S.A.

### **Introduction**

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

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

### **Scope of review**

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

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

### **Conclusion on the parent company interim information**

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

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

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

(A free translation of the original in Portuguese)

## **Other matters**

### **Statement of value added**

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

### **Audit and review of prior-year information**

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

São Paulo, July 24, 2017

PricewaterhouseCoopers

Auditores Independentes

CRC 2SP000160/O-5

Estela Maris Vieira de Souza

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

---



(A free translation of the original in Portuguese)

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

(In thousands of reais)

(A free trans

ASSETS	Note	Company		Consolidated		LIABILITIES AND EQUITY	Note	Company	
		06.30.17	12.31.16	06.30.17	12.31.16			06.30.17	12.31.16
<b>Current assets</b>		<b>20,323,772</b>	<b>17,482,265</b>	<b>21,251,020</b>	<b>18,398,995</b>	<b>Current liabilities</b>		<b>22,096,507</b>	<b>20,</b>
Cash and cash equivalents	3	6,564,821	4,675,627	7,447,061	5,105,110	Personnel, social charges and benefits	13	723,793	
Trade accounts receivable, net	4	8,386,679	8,282,685	8,773,857	8,701,688	Trade accounts payable	14	7,157,834	7,
Inventories, net	5	359,956	368,151	389,867	410,413	Taxes, charges and contributions	15	1,679,310	1,
Dividends and interest on equity	16	384,588	-	-	-	Dividends and interest on equity	16	4,569,695	2,
Taxes recoverable	6.a	2,867,811	2,952,622	2,914,299	3,027,230	Provisions	17	1,288,335	1,
Judicial deposits and garnishments	7	317,429	302,349	317,545	302,424	Deferred revenue	18	467,676	
Prepaid expenses	8	868,188	336,508	882,434	343,092	Loans and financing	19	2,053,066	2,
Derivative financial instruments	30	86,191	68,943	86,191	68,943	Debentures	19	3,487,108	2,
Other assets	9	488,109	495,380	439,766	440,095	Derivative financial instruments	30	107,026	
						Other liabilities	20	562,664	1,
<b>Non-current assets</b>		<b>83,844,548</b>	<b>84,475,240</b>	<b>83,105,458</b>	<b>83,667,264</b>	<b>Non-current liabilities</b>		<b>13,414,453</b>	<b>12,</b>
Short-term investments pledged as collateral		82,002	78,153	82,024	78,166				

Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

Trade accounts receivable, net	4	172,151	200,537	278,311	305,411	Personnel, social charges and benefits	13	16,635	
Taxes recoverable	6.a	447,682	474,240	450,499	476,844	Trade accounts payable	14	-	
Deferred taxes	6.b	-	-	134,649	27,497	Taxes, charges and contributions	15	19,629	
Judicial deposits and garnishments	7	6,183,541	5,974,733	6,260,663	6,049,142	Deferred taxes	6.b	583,967	
Prepaid expenses	8	27,761	35,340	32,454	36,430	Provisions	17	6,872,822	6,
Derivative financial instruments	30	100,185	144,050	100,185	144,050	Deferred revenue	18	446,593	
Other assets	9	75,909	53,363	78,409	55,565	Loans and financing	19	2,748,419	3,
<b>Investments</b>	10	<b>1,454,815</b>	<b>1,407,155</b>	<b>94,558</b>	<b>85,745</b>	Debentures	19	2,133,423	1,
<b>Property, plant and equipment, net</b>	11	<b>31,731,198</b>	<b>31,837,549</b>	<b>31,811,114</b>	<b>31,924,918</b>	Derivative financial instruments	30	2,152	
<b>Intangible assets, net</b>	12	<b>43,569,304</b>	<b>44,270,120</b>	<b>43,782,592</b>	<b>44,483,496</b>	Other liabilities	20	590,813	
						<b>Equity</b>		<b>68,657,360</b>	<b>69,</b>
						Capital	21	63,571,416	63,
						Capital reserves	21	1,272,581	1,
						Revenue reserves	21	2,480,332	2,
						Other comprehensive income	21	21,430	
						Retained earnings	21	1,311,601	
						Additional proposed dividends	21	-	1,
<b>TOTAL ASSETS</b>		<b>104,168,320</b>	<b>101,957,505</b>	<b>104,356,478</b>	<b>102,066,259</b>	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>104,168,320</b>	<b>101,</b>

(A free translation of the original in Portuguese)

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

(A free translation of the original in Portuguese)

	Note	Company				Consolidated			
		Three-month periods ended		Six-month periods ended		Three-month periods ended		Six-month periods ended	
		06.30.17	06.30.16	06.30.17	06.30.16	06.30.17	06.30.16	06.30.17	06.30.16
<b>Net operating revenue</b>	22	<b>10,054,580</b>	<b>9,912,641</b>	<b>20,134,226</b>	<b>18,270,754</b>	<b>10,697,193</b>	<b>10,510,049</b>	<b>21,200,000</b>	<b>20,000,000</b>
Cost of sales and services	23	(4,796,315)	(5,007,150)	(9,575,713)	(9,164,401)	(5,018,398)	(5,300,261)	(10,000,000)	(10,000,000)
<b>Gross profit</b>		<b>5,258,265</b>	<b>4,905,491</b>	<b>10,558,513</b>	<b>9,106,353</b>	<b>5,678,795</b>	<b>5,209,788</b>	<b>11,200,000</b>	<b>10,000,000</b>
<b>Operating income (expenses)</b>		<b>(4,071,014)</b>	<b>(3,931,561)</b>	<b>(8,023,853)</b>	<b>(6,656,268)</b>	<b>(4,107,601)</b>	<b>(3,962,778)</b>	<b>(8,000,000)</b>	<b>(8,000,000)</b>
Selling expenses	23	(3,288,205)	(3,092,816)	(6,444,193)	(5,675,176)	(3,305,711)	(3,105,136)	(6,400,000)	(6,400,000)
General and administrative expenses	23	(588,247)	(680,228)	(1,204,477)	(1,218,879)	(596,956)	(699,367)	(1,200,000)	(1,200,000)
Other operating income	24	65,366	89,265	179,557	721,937	66,497	90,473	1,000,000	1,000,000
Other operating expenses	24	(259,928)	(247,782)	(554,740)	(484,150)	(271,431)	(248,748)	(550,000)	(550,000)
<b>Operating profit</b>		<b>1,187,251</b>	<b>973,930</b>	<b>2,534,660</b>	<b>2,450,085</b>	<b>1,571,194</b>	<b>1,247,010</b>	<b>3,100,000</b>	<b>3,100,000</b>
Financial income	25	451,443	699,109	977,067	1,446,710	480,998	722,433	1,000,000	1,000,000
Financial expenses	25	(732,166)	(1,027,368)	(1,571,420)	(2,071,416)	(745,284)	(1,028,492)	(1,500,000)	(1,500,000)
Equity in results of investees	10	262,926	194,369	424,784	450,380	544	476	500,000	500,000
<b>Income before taxes</b>		<b>1,169,454</b>	<b>840,040</b>	<b>2,365,091</b>	<b>2,275,759</b>	<b>1,307,452</b>	<b>941,427</b>	<b>2,500,000</b>	<b>2,500,000</b>
Income tax and social contribution	26	(296,532)	(140,544)	(495,972)	(358,033)	(434,530)	(241,931)	(700,000)	(700,000)
<b>Net income for the period</b>		<b>872,922</b>	<b>699,496</b>	<b>1,869,119</b>	<b>1,917,726</b>	<b>872,922</b>	<b>699,496</b>	<b>1,800,000</b>	<b>1,800,000</b>
Basic and diluted earnings per common share (in R\$)	21	0.48	0.39	1.04	1.07				
Basic and diluted earnings per preferred share (in R\$)	21	0.53	0.43	1.14	1.17				



(A free translation of the original in Portuguese)

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

	Capital	Premium on acquisition of interest	Capital reserves Other capital reserves	Treasury shares	Legal reserve	Revenue reserves Tax incentive reserve	Expansion and modernization reserve	Retained earnings
<b>Balances at December 31, 2015</b>	<b>63,571,416</b>	<b>(75,388)</b>	<b>1,435,757</b>	<b>(87,805)</b>	<b>1,703,643</b>	<b>6,928</b>	<b>700,000</b>	-
Payment of additional dividend for 2015	-	-	-	-	-	-	-	-
Prescribed equity instruments DIPJ adjustment - Tax incentives	-	-	-	-	-	4,882	-	66,060 (4,882)
Other comprehensive income	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	-	-	-	1,917,726
Interim interest on equity	-	-	-	-	-	-	-	(918,000)
<b>Balances at June 30, 2016</b>	<b>63,571,416</b>	<b>(75,388)</b>	<b>1,435,757</b>	<b>(87,805)</b>	<b>1,703,643</b>	<b>11,810</b>	<b>700,000</b>	<b>1,060,904</b>
Prescribed equity instruments	-	-	-	-	-	-	-	155,499
Reclassification of premium on acquisition of equity interest by TData	-	75,388	(75,388)	-	-	-	-	-
Preferred shares given referring to the	-	-	2	15	-	-	-	-

judicial process of expansion plan DIPJ adjustment - Tax incentives	-	-	-	-	-	5,259	-	(5,259)
Other comprehensive income	-	-	-	-	-	-	-	(156,266)
Net income for the period	-	-	-	-	-	-	-	2,167,516
Allocation of income:								
Legal reserve	-	-	-	-	204,262	-	-	(204,262)
Interim interest on equity	-	-	-	-	-	-	-	(1,254,145)
Reversal of Expansion and Modernization Reserve	-	-	-	-	-	-	(700,000)	700,000
Expansion and Modernization Reserve	-	-	-	-	-	-	550,000	(550,000)
Additional proposed dividends	-	-	-	-	-	-	-	(1,913,987)
<b>Balances at December 31, 2016</b>	<b>63,571,416</b>	<b>- 1,360,371</b>	<b>(87,790)</b>	<b>1,907,905</b>	<b>17,069</b>	<b>550,000</b>	<b>-</b>	<b>-</b>
Payment of additional dividend for 2016	-	-	-	-	-	-	-	-
Prescribed equity instruments	-	-	-	-	-	-	-	72,840
Repurchase of preferred shares	-	-	-	(2)	-	-	-	-
Preferred shares delivered referring to the judicial process of expansion plan DIPJ adjustment - Tax incentives	-	-	-	2	-	-	-	-
	-	-	-	-	-	5,358	-	(5,358)
	-	-	-	-	-	-	-	-

Other  
comprehensive  
income

Net income for  
the period

Interim interest  
on equity

-	-	-	-	-	-	-	-	1,869,119
-	-	-	-	-	-	-	-	(625,000)

**Balances at**

<b>June 30, 2017</b>	<b>63,571,416</b>	<b>-</b>	<b>1,360,371</b>	<b>(87,790)</b>	<b>1,907,905</b>	<b>22,427</b>	<b>550,000</b>	<b>1,311,601</b>
----------------------	-------------------	----------	------------------	-----------------	------------------	---------------	----------------	------------------

(A free translation of the original in Portuguese)

**TELEFÔNICA BRASIL S.A.**  
**Statements of Comprehensive Income**  
**Three and six-month periods ended June 30, 2017 and 2016**

(In thousands of reais)

		<b>Company</b>		
		<b>Three-month</b>		<b>Six-month</b>
		<b>periods ended</b>		
	<b>Note</b>	<b>06.30.17</b>	<b>06.30.16</b>	<b>06.30.17</b>
<b>Net income for the period</b>		<b>872,922</b>	<b>699,496</b>	<b>1,869,119</b>
Unrealized gains (losses) on investments available for sale	10	(131)	66	334
Taxes		44	(23)	(114)
		(87)	43	220
Gains (losses) on derivative financial instruments	30	(2,164)	6,141	3,966
Taxes		736	(2,088)	(1,349)
		(1,428)	4,053	2,617
Cumulative Translation Adjustments (CTA) on transactions in foreign currency	10	8,181	(10,311)	7,130
<b>Other comprehensive income (losses) to be reclassified into income (losses) in subsequent periods</b>		<b>6,666</b>	<b>(6,215)</b>	<b>9,966</b>
<b>Comprehensive income for the period, net of taxes</b>		<b>879,588</b>	<b>693,281</b>	<b>1,879,085</b>





(A free translation of the original in Portuguese)

**TELEFÔNICA BRASIL S.A.**  
**Statements of Cash Flows**  
**Six-month periods ended June 30, 2017 and 2016**

(In thousands of *Reais*)

(A free translation of the original in Portuguese)

	<b>Company</b>		<b>Consolidated</b>	
	<b>06.30.17</b>	<b>06.30.16</b>	<b>06.30.17</b>	<b>06.30.16</b>
<b><u>Operating activities</u></b>				
<b>Expenses (revenues) not representing changes in cash:</b>				
Income before taxes	2,365,091	2,275,759	2,588,167	2,500,000
Depreciation and amortization	3,887,106	3,389,592	3,900,834	3,800,000
Foreign exchange gains on loans and derivative financial instruments	54,286	13,739	54,286	13,739
Monetary losses	327,745	304,788	337,006	290,000
Equity in results of investees	(424,784)	(450,380)	(1,349)	(450,380)
Losses (gains) on write-off/sale of goods	10,791	(452,157)	10,264	(452,157)
Provision for impairment - accounts receivable	682,800	577,628	728,525	600,000
Provision of trade accounts payable	121,672	318,334	91,698	300,000
Write-off and reversals for impairment - inventories	(36,005)	(19,774)	(31,727)	(20,000)
Pension plans and other post-retirement benefits	15,410	(4,788)	15,400	(4,788)
Provisions for tax, civil, labor and regulatory contingencies	448,505	485,493	460,494	500,000
Interest expense	529,876	507,652	529,876	507,652
Other	6,205	(43,124)	6,205	(43,124)
<b>Changes in assets and liabilities</b>				
Trade accounts receivable	(758,408)	(608,191)	(773,594)	(800,000)
Inventories	44,200	139,910	52,273	140,000
Taxes recoverable	(193,192)	2,918	(166,008)	(50,000)
Prepaid expenses	(425,483)	(381,424)	(436,748)	(390,000)
Other current assets	3,148	36,025	(4,301)	36,025
Other noncurrent assets	(23,101)	32,758	(22,432)	32,758
Personnel, social charges and benefits	(17,386)	67,253	(17,726)	67,253
Trade accounts payable	(4,952)	(627,547)	(36,592)	(440,000)
Taxes, charges and contributions	286,211	(118,816)	290,342	300,000
Other current liabilities	(1,344,868)	(283,530)	(1,344,178)	(280,000)
Other non-current liabilities	(537,444)	(487,759)	(518,449)	(490,000)
	<b>5,017,423</b>	<b>4,674,359</b>	<b>5,712,266</b>	<b>5,800,000</b>
Interest paid	(398,438)	(446,340)	(398,438)	(446,340)
Income tax and social contribution paid	-	(157,831)	(175,170)	(175,170)
<b>Total cash generated by operating activities</b>	<b>4,618,985</b>	<b>4,070,188</b>	<b>5,138,658</b>	<b>5,000,000</b>

**Investing activities**

Additions to PP&E, intangible assets	(3,435,935)	(3,097,358)	(3,503,628)	(3,64
Cash received from sale of PP&E items	16,721	765,208	17,948	76
Redemption of (increase in) judicial deposits	(46,215)	(100,252)	(46,665)	(11
Dividends and interest on equity received	-	389,395	-	-
Cash and cash equivalents merged	-	358,579	-	-

**Total cash used in investing activities** **(3,465,429) (1,684,428) (3,532,345) (3,00**

**Financing activities**

Payment of loans, financing and debentures	(1,223,083)	(1,461,168)	(1,223,083)	(1,63
Funding from the issuance of loans, financing and debentures	2,039,878	-	2,039,878	-
Received from derivative financial instruments	50,927	72,444	50,927	7
Payment of derivative financial instruments	(131,411)	(139,427)	(131,411)	(13
Payment for reverse split of shares	-	(164)	-	-
Dividends and interest on equity paid	(671)	(917)	(671)	(6
Repurchase of preferred shares	(2)	-	(2)	(2

**Total cash generated by (used in) financing activities** **735,638 (1,529,232) 735,638 (1,69**

**Increase in cash and cash equivalents** **1,889,194 856,528 2,341,951 33**

**Cash and cash equivalents at beginning of the period** **4,675,627 4,206,595 5,105,110 5,33**

**Cash and cash equivalents at end of the period** **6,564,821 5,063,123 7,447,061 5,67**

**Changes in cash and cash equivalents for the period** **1,889,194 856,528 2,341,951 33**

(A free translation of the original in Portuguese)

**TELEFÔNICA BRASIL S.A.**  
**Statements of Value Added**  
**Six-month periods ended June 30, 2017 and 2016**  
**(In thousands in reais)**

(A free translation of the original in Portuguese)

	<b>Company</b>		<b>Consolidated</b>	
	<b>06.30.17</b>	<b>06.30.16</b>	<b>06.30.17</b>	<b>06.30.16</b>
<b>Revenues</b>	<b>28,190,119</b>	<b>25,196,800</b>	<b>29,486,687</b>	<b>28,548,619</b>
Sale of goods and services	28,335,138	25,291,571	29,649,858	28,601,572
Other revenues	537,781	482,857	565,354	608,480
Provision for impairment of trade accounts receivable	(682,800)	(577,628)	(728,525)	(661,433)
<b>Inputs acquired from third parties</b>	<b>(9,398,203)</b>	<b>(8,785,611)</b>	<b>(9,913,958)</b>	<b>(10,006,992)</b>
Cost of goods and products sold and services rendered	(4,681,846)	(4,926,792)	(5,198,167)	(5,925,740)
Materials, electric energy, third-party services and other expenses	(4,711,195)	(4,331,613)	(4,706,749)	(4,559,399)
Assets (loss) recovery	(5,162)	472,794	(9,042)	478,147
<b>Gross value added</b>	<b>18,791,916</b>	<b>16,411,189</b>	<b>19,572,729</b>	<b>18,541,627</b>
<b>Retentions</b>	<b>(3,887,106)</b>	<b>(3,389,592)</b>	<b>(3,900,834)</b>	<b>(3,866,606)</b>
Depreciation and amortization	(3,887,106)	(3,389,592)	(3,900,834)	(3,866,606)
<b>Net value added produced</b>	<b>14,904,810</b>	<b>13,021,597</b>	<b>15,671,895</b>	<b>14,675,021</b>
<b>Value added received in transfer</b>	<b>1,401,851</b>	<b>1,897,090</b>	<b>1,036,261</b>	<b>1,521,357</b>
Equity in results of investees	424,784	450,380	1,349	724
Financial income	977,067	1,446,710	1,034,912	1,520,633
<b>Total value added</b>	<b>16,306,661</b>	<b>14,918,687</b>	<b>16,708,156</b>	<b>16,196,378</b>
<b>Distribution of value added</b>	<b>(16,306,661)</b>	<b>(14,918,687)</b>	<b>(16,708,156)</b>	<b>(16,196,378)</b>
Personnel, social charges and benefits	(2,016,616)	(1,834,805)	(2,040,295)	(2,144,764)
Direct compensation	(1,373,761)	(1,293,080)	(1,388,739)	(1,510,710)
Benefits	(537,305)	(454,460)	(544,667)	(532,573)

Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

FGTS (unemployment compensation fund)	(105,550)	(87,265)	(106,889)	(101,481)
Taxes, charges and contributions	(9,471,638)	(7,942,995)	(9,828,331)	(8,722,082)
Federal	(2,712,978)	(2,300,095)	(3,046,182)	(2,682,492)
State	(6,714,322)	(5,603,086)	(6,726,871)	(5,966,447)
Municipal	(44,338)	(39,814)	(55,278)	(73,143)
Third-party debt remuneration	(2,949,288)	(3,223,161)	(2,970,411)	(3,411,806)
Interest	(1,539,760)	(2,044,709)	(1,555,833)	(2,112,815)
Rental	(1,409,528)	(1,178,452)	(1,414,578)	(1,298,991)
Equity remuneration	(1,869,119)	(1,917,726)	(1,869,119)	(1,917,726)
Retained profit	(1,869,119)	(1,917,726)	(1,869,119)	(1,917,726)

---

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

**1) THE COMPANY AND ITS OPERATIONS**

**a) Background information**

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

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

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

**b) Operations**

The Company operates in the rendering of: (i) Fixed Switched Telephone Service Concession Arrangement ("STFC"); (ii) Multimedia Communication Service ("SCM", data communication, including broadband

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

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

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

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

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

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

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

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

**d) Corporate restructuring**

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

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

**a) Statement of compliance**

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

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



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

**b) Basis of preparation and presentation**

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

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

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

The Board of Directors authorized the issue of these individual and consolidated financial statements at the meeting held on July 24, 2017.

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

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

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

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

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

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

IAS 12 - Income Taxes. amendments: The amendments clarify that an entity should consider whether tax legislation restricts sources of taxable income against which it may make deductions on the reversal of that deductible temporary difference. In addition, the amendments provide guidance on how an entity should determine future taxable income and explain the circumstances under which taxable income may include the recovery of some assets for amounts greater than their carrying amount. If an entity adopts the changes for an earlier period, it should disclose that fact. The application of the changes in this standard did not have a material impact on the Company's financial position.

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

<b>Standards and Amendments to the Standards</b>	<b>Effective as of:</b>
IFRS 9 Financial Instruments, issued	January 1, 2018
IFRS 15 Revenue from Contracts with Customers, as issued	January 1, 2018
IFRS 2 Classification and Valuation of Share Based Transactions, as amended	January 1, 2018
IFRS 4 Insurance Contracts, as amended	January 1, 2018
IAS 40 Investment Property Transfers, as amended	January 1, 2018
IFRIC 22 Transactions in Foreign Currency and Advance Payments, as issued	January 1, 2018
Annual Improvements to IFRS, 2014-2016 Cycle, as issued	January 1, 2017 / 2018
IFRS 16 Leases, as issued	January 1, 2019
IFRIC 23 Uncertainties over Income Tax Treatments	January 1, 2019
IFRS 17 Insurance Contracts	January 1, 2021
IFRS 10, 12 and IAS 28 Investment Entities: Applying the Consolidation Exception, as amended	TBD

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

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

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

IFRS 9 applies to financial assets and liabilities and establishes the classification, valuation, losses and write-off criteria for recognition of such items, as well as a new hedge accounting model. The Company estimates that major changes will occur in the documentation of hedge policies and strategies, as well as in the estimation of expected losses on financial assets. The changes introduced by IFRS 9 will affect the recognition of financial assets and derivative financial instruments as of January 1, 2018. The Company is carrying out the process of implementing the new criteria, but due to the relevance of the potentially affected items and the complexity of the estimates, understands that it is not reasonably possible to quantify the impacts of the application of this standard on the date of these quarterly financial statements.

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

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

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

- According to the criteria currently in force, all costs directly related to obtaining commercial contracts (sales commissions and other expenses with third parties) are accounted as expenses when incurred. On the other hand, IFRS 15 requires the recognition of an asset for the amounts incurred under these contracts and its subsequent accounting in the income statement according to the period of the respective agreement. Likewise, certain costs related to the performance of the contract, currently recognized as expenses, when incurred, will be deferred when associated with compliance obligations over the period of contract.

- Compared to the current standard, IFRS 15 establishes more detailed requirements on the accounting treatment of contract changes. Thus, certain changes will be recorded retrospectively and others prospectively resulting in the redistribution of revenues among the various performance obligations identified.

The Company is advancing in the process of implementing the new criteria, but due to the high number of transactions affected, the high volume and dispersion of the necessary information and the complexity of the estimates, the Company understands that at the closing date of the quarterly financial statements cannot reliably measure the impact of the application of this standard.

However, considering the current commercial offers as well as the volume of affected contracts, the Company estimates that the changes introduced by IFRS 15 will have a significant impact on its financial statements at the date of its initial application. In addition, the Company's financial statements will include more quantitative disclosures of revenue-related accounts.

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

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

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

The Company is currently in the process of estimating the impact of this new standard on such contracts. In this analysis, the estimate of the term of the lease is included, considering the non-cancellable period and the periods covered if exercised the option to extend the lease for those cases there exists reasonable certainty, which will depend, of the expected use of the Company's assets installed in the leased assets.

In addition to the term of the lease, assumptions will be used to calculate the discount rate, which will depend mainly on the incremental financing rate for the estimated periods. In addition to the previous estimates, the standard allows two transition methods, being: (i) full retrospective for each comparative period presented; and (ii) modified retrospective with the cumulative effect of the initial application of the standard recognized at the date of initial application. In addition, it is possible to choose specific practical relieves at the time of applying the standard on measurement of liability, discount rate, losses, leases ending within twelve months after the first application, initial direct costs, and lease duration. Thus, depending on the transition method to be chosen, the impacts will be different.

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

However, considering the volume of contracts affected, the Company estimates that the changes introduced by IFRS 16 will have a significant impact on its financial statements from the date of adoption, including the recognition of the right to use and the corresponding obligations in respect to the contracts which, under the current standard, are classified as operating leases. In addition, depreciation of the right to use the assets and recognition of interest on the lease obligation will replace a significant portion of the amount recognized as expenses in the income statement for the operating lease. The classification of payments in the statement of cash flows will also be affected by the adoption of IFRS 16.

**c) Basis of consolidation**

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

Investees	Type of investment	Equity interests	Country (Headquarters)
Telefônica Data S.A. ("TData")	Wholly-owned subsidiary	100.00%	Brazil
POP Internet Ltda ("POP") (note 1c)	Wholly-owned subsidiary	100.00%	Brazil
Aliança Atlântica Holging B.V. ("Aliança")	Jointly-controlled subsidiary	50.00%	Holland
Companhia AIX de Participações ("AIX")	Jointly-controlled subsidiary	50.00%	Brazil
Companhia ACT de Participações ("ACT")	Jointly-controlled subsidiary	50.00%	Brazil

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

**3) CASH AND CASH EQUIVALENTS**

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Cash and banks	70,434	189,445	71,842	198,369
Short-term investments	6,494,387	4,486,182	7,375,219	4,906,741
<b>Total</b>	<b>6,564,821</b>	<b>4,675,627</b>	<b>7,447,061</b>	<b>5,105,110</b>

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





(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****4) TRADE ACCOUNTS RECEIVABLE, NET**

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Billed amounts	6,289,506	6,077,768	7,039,222	6,939,909
Unbilled amounts	1,981,225	1,898,630	2,097,475	1,930,708
Interconnection amounts	1,277,127	1,333,595	1,311,953	1,345,471
Amounts from related parties (Note 27)	161,756	177,741	176,832	190,906
<b>Gross accounts receivable</b>	<b>9,709,614</b>	<b>9,487,734</b>	<b>10,625,482</b>	<b>10,406,994</b>
Estimated impairment losses	(1,150,784)	(1,004,512)	(1,573,314)	(1,399,895)
<b>Total</b>	<b>8,558,830</b>	<b>8,483,222</b>	<b>9,052,168</b>	<b>9,007,099</b>
Current	8,386,679	8,282,685	8,773,857	8,701,688
Non-current	172,151	200,537	278,311	305,411

Consolidated balances of non-current trade accounts receivable include:

- R\$119,177 at June 30, 2017 (R\$143,265 at December 31, 2016), relating to the business model of resale of goods to legal entities, receivable within 24 months. At June 30, 2017, the impact of the present-value adjustment was R\$21,259 (R\$32,920 at December 31, 2016).
- R\$52,974, at June 30, 2017 (R\$57,272, at December 31, 2016), net of the present value adjustment relating to the portion of accounts receivable arising from negotiations on the bankruptcy process of companies from the OI group. At June 30, 2017, the impact of the present-value adjustment was R\$8,130

(R\$10,268 at December 31, 2016).

- R\$106,160, at June 30, 2017, (R\$104,874 at December 31, 2016), relating to "Solucionada 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 June 30, 2017, the impact of the present-value adjustment was R\$2,261 (R\$3,005 at December 31, 2016).

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

	Consolidated	
	06/30/17	12/31/16
Nominal amount receivable	597,606	611,384
Deferred financial income	(2,261)	(3,005)
<b>Present value of accounts receivable</b>	<b>595,345</b>	<b>608,379</b>
Estimated impairment losses	(361,583)	(344,738)
<b>Net amount receivable</b>	<b>233,762</b>	<b>263,641</b>
Current	127,602	158,767
Non-current	106,160	104,874

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

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

	Consolidated	
	Nominal amount receivable	Present value of accounts receivable
Falling due within one year	320,751	320,751
Falling due between one year and five years	276,855	274,594
<b>Total</b>	<b>597,606</b>	<b>595,345</b>

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

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

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Falling due	6,307,590	6,392,442	6,815,427	6,841,752
Overdue – 1 to 30 days	1,123,120	1,025,630	1,167,325	1,073,568
Overdue – 31 to 60 days	367,808	309,210	379,093	322,485
Overdue – 61 to 90 days	243,425	225,132	247,523	227,010
Overdue – 91 to 120 days	121,286	110,813	119,406	105,048
Overdue – over 120 days	395,601	419,995	323,394	437,236
<b>Total</b>	<b>8,558,830</b>	<b>8,483,222</b>	<b>9,052,168</b>	<b>9,007,099</b>

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

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

	Company	Consolidated
<b>Balance at 12/31/15</b>	<b>(1,650,112)</b>	<b>(2,217,926)</b>
Increase to estimated losses (Note 23)	(807,213)	(919,351)
Reversal of estimated losses (Note 23)	229,585	257,918
Write-off due to use	460,924	507,753
Merger (Note 1d)	(160,720)	-
<b>Balance at 06/30/16</b>	<b>(1,927,536)</b>	<b>(2,371,606)</b>
Increase to estimated losses	(860,146)	(924,424)
Reversal of estimated losses	212,032	237,636
Write-off due to use	1,571,138	1,658,499
<b>Balance at 12/31/16</b>	<b>(1,004,512)</b>	<b>(1,399,895)</b>
Increase to estimated losses (Note 23)	(881,479)	(940,100)
Reversal of estimated losses (Note 23)	198,679	211,575
Write-off due to use	536,528	555,106
<b>Balance at 06/30/17</b>	<b>(1,150,784)</b>	<b>(1,573,314)</b>

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****5) INVENTORIES, NET**

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Materials for resale (1)	319,796	335,281	350,432	377,465
Materials for consumption	75,604	75,086	78,625	77,732
Other inventories	7,968	7,892	7,968	7,892
<b>Gross total</b>	<b>403,368</b>	<b>418,259</b>	<b>437,025</b>	<b>463,089</b>
Estimated losses from impairment or obsolescence	(43,412)	(50,108)	(47,158)	(52,676)
<b>Total</b>	<b>359,956</b>	<b>368,151</b>	<b>389,867</b>	<b>410,413</b>

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

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

	Company	Consolidated
<b>Balance at 12/31/15</b>	<b>(48,390)</b>	<b>(52,341)</b>
Increase to estimated losses	(1,993)	(4,731)
Reversal of estimated losses	10,196	12,203
<b>Balance at 06/30/16</b>	<b>(40,187)</b>	<b>(44,869)</b>
Increase to estimated losses	(22,950)	(25,024)
Reversal of estimated losses	13,029	17,217
<b>Balance at 12/31/16</b>	<b>(50,108)</b>	<b>(52,676)</b>
Increase to estimated losses	(16,151)	(19,580)
Reversal of estimated losses	22,847	25,098
<b>Balance at 06/30/17</b>	<b>(43,412)</b>	<b>(47,158)</b>

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

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****6) DEFERRED TAXES AND TAXES RECOVERABLE****a) Taxes recoverable**

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
State VAT (ICMS) (1)	2,336,222	2,317,739	2,346,113	2,329,159
Income and social contribution taxes recoverable (2)	779,002	829,160	783,682	830,549
Withholding taxes and contributions (3)	111,959	131,915	129,796	157,371
PIS and COFINS	75,613	125,273	76,674	148,759
INSS, ISS and other taxes	12,697	22,775	28,533	38,236
<b>Total</b>	<b>3,315,493</b>	<b>3,426,862</b>	<b>3,364,798</b>	<b>3,504,074</b>
Current	2,867,811	2,952,622	2,914,299	3,027,230
Non-current	447,682	474,240	450,499	476,844

(1) This includes credits arising from the acquisition of property and equipment (subject to offsetting in 48 months); requests for refund of ICMS, which was paid under invoices that were cancelled subsequently; for the rendering of services; tax substitution; and tax rate difference; among others. Non-current consolidated amounts include credits arising from the acquisition of property and equipment of R\$347,102 and R\$370,770 on June 30, 2017 and December 31, 2016, respectively.

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



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

**b) Deferred taxes**

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

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

	Company							
	Balances at 12/31/15	Income statement	Comprehensive income	Merger (note 1d)	Balances at 06/30/16	Income statement	Comprehensive income	Other
<b><u>Deferred tax assets (liabilities)</u></b>								
<b>Income and social contribution taxes on tax losses (1)</b>	-	-	-	-	-	<b>1,376</b>	-	-
<b>Income and social contribution taxes on temporary differences (2)</b>	<b>(155,951)</b>	<b>(97,976)</b>	<b>5,932</b>	<b>705,367</b>	<b>457,372</b>	<b>(618,793)</b>	<b>72,866</b>	<b>(1,516)</b>
Provisions for legal, labor, tax civil and regulatory contingencies	1,681,016	127,109	-	282,751	2,090,876	130,179	-	-
Trade accounts payable and other provisions	535,001	42,170	-	66,455	643,626	(35,468)	-	-
Customer portfolio and trademarks	256,056	(28,173)	-	119,695	347,578	(34,487)	-	-
Estimated losses on impairment of accounts	369,174	60,691	-	54,645	484,510	(142,975)	-	-

receivable								
Estimated losses from modems and other P&E items	170,132	(5,572)	-	122,696	287,256	(4,989)		-
Pension plans and other post-employment benefits	26,164	3,788	-	-	29,952	(2,008)		80,459
Profit sharing	88,944	18,160	-	3,963	111,067	12,844		-
Provision for loyalty program	32,604	(14,204)	-	-	18,400	712		-
Accelerated accounting depreciation	10,865	(1,875)	-	-	8,990	15,043		-
Estimated impairment losses on inventories	9,364	(14,051)	-	13,620	8,933	2,294		-
Derivative transactions	47,911	24,222	5,874	10,523	88,530	(21,331)		(7,507)
Licenses	(1,204,226)	(108,165)	-	-	(1,312,391)	(108,165)		-
Effects of goodwill generated in the merger of Vivo Part.	(809,600)	(30,484)	-	-	(840,084)	(24,236)		-
Goodwill from Spanish and Navytree	(337,535)	-	-	-	(337,535)	-		-
Goodwill from Vivo Part.	(837,918)	(83,603)	-	-	(921,521)	(83,599)		-
Goodwill from GVT Part.	-	(174,076)	-	-	(174,076)	(348,152)		-
Technological Innovation Law	(193,146)	30,097	-	-	(163,049)	22,109		-
Income and social contribution taxes on other temporary differences (3)	(757)	55,990	58	31,019	86,310	3,436		(86) (1,516)
<b>Total</b>	<b>(155,951)</b>	<b>(97,976)</b>	<b>5,932</b>	<b>705,367</b>	<b>457,372</b>	<b>(617,417)</b>		<b>72,866 (1,516)</b>
<b>Deferred tax assets</b>	<b>3,535,671</b>				<b>4,538,494</b>			
<b>Deferred tax liabilities</b>	<b>(3,691,622)</b>				<b>(4,081,122)</b>			
<b>Deferred tax assets (liabilities), net</b>	<b>(155,951)</b>				<b>457,372</b>			

**Represented in  
the balance  
sheet as  
follows:**

**Deferred tax  
assets**

-

**457,372**

**Deferred tax  
liabilities**

**(155,951)**

-

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

	Balances at 12/31/15	Income statement	Comprehensive income	Balances at 06/30/16	Income statement	Consolidated Comprehensive income	Other	Balances at 12/31/16	Income statement
<b><u>Deferred tax assets (liabilities)</u></b>									
<b>Income and social contribution taxes on tax losses (1)</b>	<b>26,519</b>	<b>(12,019)</b>	<b>-</b>	<b>14,500</b>	<b>(429)</b>	<b>-</b>	<b>-</b>	<b>14,071</b>	<b>3,462</b>
<b>Income and social contribution taxes on temporary differences (2)</b>	<b>685,071</b>	<b>(95,915)</b>	<b>5,932</b>	<b>595,088</b>	<b>(653,054)</b>	<b>72,908</b>	<b>(1,516)</b>	<b>13,426</b>	<b>(478,467)</b>
Provisions for legal, labor, tax civil and regulatory contingencies	1,954,236	152,469	-	2,106,705	123,631	-	-	2,230,336	97,505
Trade accounts payable and other provisions	687,124	30,877	-	718,001	(40,878)	-	-	677,123	37,024
Estimated losses on impairment of accounts receivable	447,018	65,456	-	512,474	(153,669)	-	-	358,805	53,159
Customer portfolio and trademarks	343,107	4,471	-	347,578	(34,486)	-	-	313,092	(27,417)
Estimated losses from modems and other P&E items	294,945	(14,993)	-	279,952	4,725	-	-	284,677	(71,300)

Pension plans and other post-employment benefits	26,285	3,680	-	29,965	(2,047)	80,501	-	108,419	7,934
Profit sharing	106,198	5,950	-	112,148	13,108	-	-	125,256	(35,200)
Provision for loyalty program	32,604	(14,204)	-	18,400	712	-	-	19,112	2,288
Accelerated accounting depreciation	10,865	(1,875)	-	8,990	15,043	-	-	24,033	(3,043)
Estimated impairment losses on inventories	10,707	(182)	-	10,525	1,574	-	-	12,099	(2,572)
Derivative transactions	59,408	22,729	5,874	88,011	(20,371)	(7,507)	-	60,133	14,687
Licenses	(1,204,226)	(108,165)	-	(1,312,391)	(108,165)	-	-	(1,420,556)	(108,165)
Effects of goodwill generated in the acquisition of Vivo Part.	(809,600)	(30,484)	-	(840,084)	(24,236)	-	-	(864,320)	(5,400)
Goodwill from Spanish and Navytree	(337,535)	-	-	(337,535)	-	-	-	(337,535)	-
Goodwill from Vivo Part.	(837,918)	(83,603)	-	(921,521)	(83,599)	-	-	(1,005,120)	(83,603)
Goodwill from GVTPart.	-	(174,076)	-	(174,076)	(348,152)	-	-	(522,228)	(348,152)
Technological Innovation Law	(193,146)	30,097	-	(163,049)	22,109	-	-	(140,940)	27,196
Income and social contribution taxes on other temporary differences (3)	94,999	15,938	58	110,995	(18,353)	(86)	(1,516)	91,040	(36,700)
<b>Total deferred tax assets (liabilities), noncurrent</b>	<b>711,590</b>	<b>(107,934)</b>	<b>5,932</b>	<b>609,588</b>	<b>(653,483)</b>	<b>72,908</b>	<b>(1,516)</b>	<b>27,497</b>	<b>(475,300)</b>
<b>Deferred tax assets</b>	<b>4,153,054</b>			<b>4,431,710</b>				<b>4,541,952</b>	
<b>Deferred tax liabilities</b>	<b>(3,441,464)</b>			<b>(3,822,122)</b>				<b>(4,514,455)</b>	
<b>Deferred tax assets (liabilities), net</b>	<b>711,590</b>			<b>609,588</b>				<b>27,497</b>	

**Represented in the balance sheet as follows:**

<b>Deferred tax assets</b>	<b>711,590</b>	<b>609,588</b>	<b>27,497</b>
<b>Deferred tax liabilities</b>	-	-	-

(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.

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

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

At June 30, 2017, deferred tax credits (income tax and social contribution losses) were not recognized in indirect subsidiary (Innoweb) accounting records, in the amount of R\$5,286 (R\$2,993 at December 31, 2016), as it is not probable that future taxable profits will be available to use them.

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****7) JUDICIAL DEPOSITS AND GARNISHMENTS**

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

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Judicial deposits				
Tax	3,956,627	3,698,966	4,018,537	3,758,787
Labor	998,502	1,040,635	1,010,212	1,051,430
Civil	1,161,697	1,107,929	1,162,372	1,109,001
Regulatory	212,150	276,604	212,150	276,604
<b>Total</b>	<b>6,328,976</b>	<b>6,124,134</b>	<b>6,403,271</b>	<b>6,195,822</b>
Garnishments	171,994	152,948	174,937	155,744
<b>Total</b>	<b>6,500,970</b>	<b>6,277,082</b>	<b>6,578,208</b>	<b>6,351,566</b>
Current	317,429	302,349	317,545	302,424
Non-current	6,183,541	5,974,733	6,260,663	6,049,142

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

On June 30, 2017, the Company and its subsidiaries had several tax-related judicial deposits in the consolidated amount of R\$4,018,537 (R\$3,758,787 at December 31, 2016). In Note 17, we provide further details on issues arising from the most significant judicial deposits.

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

	Consolidated	
	06/30/17	12/31/16
Contribution tax on gross revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS)	36,388	35,570
Social Contribution Tax for Intervention in the Economic Order (CIDE)	181,992	176,557
Telecommunications Inspection Fund (FISTEL)	1,129,775	1,095,789
Withholding Income Tax (IRRF)	76,144	73,848
Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL)	469,287	449,988
Contribution to Empresa Brasil de Comunicação (EBC)	1,199,665	1,053,867
Social Security, work accident insurance (SAT) and funds to third parties (INSS)	131,951	128,458
Universal Telecommunication Services Fund (FUST)	474,181	456,977
State Value-Added Tax (ICMS)	242,828	212,652
Other taxes, charges and contributions	76,326	75,081
<b>Total</b>	<b>4,018,537</b>	<b>3,758,787</b>

---



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

**8) PREPAID EXPENSES**

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Fistel Fee (1)	535,074	-	535,074	-
Advertising and publicity	144,963	258,212	144,963	258,212
Insurance	27,819	39,008	28,177	39,558
Rental	24,704	19,276	24,704	19,276
Software and networks maintenance	61,201	10,204	69,219	12,283
Taxes, financial charges, personal and other (2)	102,188	45,148	112,751	50,193
<b>Total</b>	<b>895,949</b>	<b>371,848</b>	<b>914,888</b>	<b>379,522</b>
Current	868,188	336,508	882,434	343,092
Non-current	27,761	35,340	32,454	36,430

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

(2) At June 30, 2017, the consolidated amount includes R\$58,184 related to IPTU and the renewal of SMP and STFC licenses, which will be amortized to the result until the end of the year.

**9) OTHER ASSETS**

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Advances to employees and suppliers	142,723	81,325	145,331	83,634
Related-party receivables (Note 27)	209,521	311,633	157,393	250,679
Receivables from suppliers	159,927	96,065	159,927	99,166
Subsidy on handset sales	17,475	30,491	17,475	30,491
Surplus from post-employment benefit plans (Note 29)	9,240	8,838	9,453	9,041
Other amounts receivable	25,132	20,391	28,596	22,649
<b>Total</b>	<b>564,018</b>	<b>548,743</b>	<b>518,175</b>	<b>495,660</b>
Current	488,109	495,380	439,766	440,095
Non-current	75,909	53,363	78,409	55,565

**10) INVESTMENTS****a) Information on investees**

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

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

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

	At 06/30/17					At 12/31/16				
	Wholly-owned subsidiaries		Jointly-controlled subsidiaries			Wholly-owned subsidiaries		Jointly-controlled subsidiaries		
	TData	POP	ACT	Cia AIX	Aliança	TData	POP	ACT	Cia AIX	
<b>Capital</b>	100.00%	100.00%	50.00%	50.00%	50.00%	100.00%	100.00%	50.00%	50.00%	
<b>Summary of balance sheets:</b>										
Current assets	1,802,815	30,821	16	23,437	159,474	1,414,039	27,407	15	20,333	
Non-current assets	359,079	52,328	-	12,070	-	362,195	52,016	-	12,877	
<b>Total assets</b>	<b>2,161,894</b>	<b>83,149</b>	<b>16</b>	<b>35,507</b>	<b>159,474</b>	<b>1,776,234</b>	<b>79,423</b>	<b>15</b>	<b>33,210</b>	
Current liabilities	964,335	49,222	2	4,426	168	633,631	49,535	1	4,020	
Non-current liabilities	83,177	109	-	4,637	-	63,139	-	-	5,410	
Equity	1,114,382	33,818	14	26,444	159,306	1,079,464	29,888	14	23,777	
<b>Total liabilities and equity</b>	<b>2,161,894</b>	<b>83,149</b>	<b>16</b>	<b>35,507</b>	<b>159,474</b>	<b>1,776,234</b>	<b>79,423</b>	<b>15</b>	<b>33,210</b>	
<b>Investment Book value</b>	<b>1,114,382</b>	<b>33,818</b>	<b>7</b>	<b>13,222</b>	<b>79,653</b>	<b>1,079,464</b>	<b>29,888</b>	<b>7</b>	<b>11,888</b>	

	At 06/30/17					At 06/30/16				
	Wholly-owned subsidiaries		Jointly-controlled subsidiaries			Wholly-owned subsidiaries				
	TData	POP	ACT	Cia AIX	Aliança	TData	POP	GVTPart.	(1)	
<b>Summary of Income Statements:</b>										
Net operating income	1,237,179	14,820	41	22,670	-	1,253,426	14,642	1,531,692	(1)	
Operating costs and expenses	(636,244)	(8,939)	(41)	(20,196)	14	(716,734)	(7,663)	(1,300,347)	(3)	
Financial income (expenses), net	38,918	777	-	689	12	41,888	740	(41,146)		
Income and social contribution taxes	(220,348)	(2,728)	-	(491)	-	(198,080)	(3,163)	(57,958)		
<b>Net income (loss) for the period</b>	<b>419,505</b>	<b>3,930</b>	<b>-</b>	<b>2,672</b>	<b>26</b>	<b>380,500</b>	<b>4,556</b>	<b>132,241</b>		

<b>Equity pickup, according to interest held</b>	<b>419,505</b>	<b>3,930</b>	<b>-</b>	<b>1,336</b>	<b>13</b>	<b>380,500</b>	<b>4,556</b>	<b>132,241</b>
--	----------------	--------------	----------	--------------	-----------	----------------	--------------	----------------

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

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

**b) Changes in investments**

	Wholly-owned subsidiaries			Jointly-controlled subsidiaries				Surplus value of net assets acquired	Other investment
	TData	POP	GVTPart.	Aliança	AIX	ACT	Goodwill (1)	(note 1c)	(2)
<b>Balances at 12/31/15</b>	<b>1,056,305</b>	<b>-</b>	<b>7,674,444</b>	<b>89,799</b>	<b>10,099</b>	<b>4</b>	<b>13,049,199</b>	<b>2,461,583</b>	<b>1,25</b>
Equity pick-up	380,500	4,556	132,241	(23)	746	1	-	(67,641)	
Merger (nota 1d)	-	22,590	(7,806,685)	-	-	-	(12,837,141)	(2,393,942)	
Dividends and interest on equity	(389,395)	-	-	-	489	-	-	-	
Other comprehensive income	-	-	-	(14,522)	-	-	-	-	(172)
<b>Balances at 06/30/16</b>	<b>1,047,410</b>	<b>27,146</b>	<b>-</b>	<b>75,254</b>	<b>11,334</b>	<b>5</b>	<b>212,058</b>	<b>-</b>	<b>1,08</b>
Equity pick-up	392,134	2,742	-	(34)	552	2	-	-	
Dividends and interest on equity	(360,000)	-	-	-	-	-	-	-	
Other comprehensive income	(80)	-	-	(2,710)	-	-	-	-	25
<b>Balances at 12/31/16</b>	<b>1,079,464</b>	<b>29,888</b>	<b>-</b>	<b>72,510</b>	<b>11,886</b>	<b>7</b>	<b>212,058</b>	<b>-</b>	<b>1,34</b>
Equity pick-up	419,505	3,930	-	13	1,336	-	-	-	
Dividends and interest on equity	(384,588)	-	-	-	-	-	-	-	
Other comprehensive income	-	-	-	7,130	-	-	-	-	33
<b>Balances at 06/30/17</b>	<b>1,114,381</b>	<b>33,818</b>	<b>-</b>	<b>79,653</b>	<b>13,222</b>	<b>7</b>	<b>212,058</b>	<b>-</b>	<b>1,67</b>

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

originated from the acquisition of GVTPart. in 2015 (Note 1c).

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

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****11) PROPERTY, PLANT AND EQUIPMENT, NET****a) Breakdown and changes**

	Company							Assets and facilities under construction
	Switching equipment	Transmission equipment and media	Terminal equipment / modems	Infrastructure	Land	Other P&E	Estimated losses (1)	
<b>Balances and changes:</b>								
<b>Balance at 12/31/15</b>	<b>2,796,041</b>	<b>11,680,029</b>	<b>1,530,793</b>	<b>3,371,532</b>	<b>313,105</b>	<b>711,085</b>	<b>(155,277)</b>	<b>1,771,768</b>
Additions	1,364	109,376	47,429	24,299	-	106,193	(6,285)	2,009,507
Write-offs, net (2)	(1,159)	(11,105)	(70)	(98,702)	(201)	(339)	-	(11,897)
Net transfers	277,728	1,171,427	361,749	197,711	-	(51,219)	-	(2,018,633)
Depreciation (Note 23)	(302,642)	(981,717)	(570,924)	(250,582)	-	(132,562)	-	-
Merger (Note 1d)	1,039,161	5,269,872	1,572,567	428,622	2,601	159,039	(331,956)	221,157
<b>Balance at 06/30/16</b>	<b>3,810,493</b>	<b>17,237,882</b>	<b>2,941,544</b>	<b>3,672,880</b>	<b>315,505</b>	<b>792,197</b>	<b>(493,518)</b>	<b>1,971,902</b>
Additions	-	244,551	41,224	132,802	215	197,983	(13,573)	3,511,679
Write-offs, net	-	(8,183)	(397)	(177)	(1)	(412)	21,708	(24,591)
Net transfers	365,426	1,878,760	331,618	164,194	-	12,981	(3)	(2,758,120)

## Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

Depreciation	(223,436)	(1,073,868)	(732,810)	(254,205)	-	(224,701)	-	-
<b>Balance at</b>								
<b>12/31/16</b>	<b>3,952,483</b>	<b>18,279,142</b>	<b>2,581,179</b>	<b>3,715,494</b>	<b>315,719</b>	<b>778,048</b>	<b>(485,386)</b>	<b>2,700,870</b>
Additions	-	17,364	58,206	27,967	-	99,960	(30,317)	2,329,641
Write-offs, net	(569)	(69,798)	(131)	(6,479)	(1,914)	(630)	67,880	(12,984)
Net transfers	539,699	1,199,919	670,603	308,961	-	2,329	132,578	(2,836,657)
Depreciation (Note 23)	(302,020)	(1,227,511)	(640,994)	(270,637)	-	(160,817)	-	-
<b>Balance at</b>								
<b>06/30/17</b>	<b>4,189,593</b>	<b>18,199,116</b>	<b>2,668,863</b>	<b>3,775,306</b>	<b>313,805</b>	<b>718,890</b>	<b>(315,245)</b>	<b>2,180,870</b>
At 12/31/16								
Cost	20,051,571	50,730,016	15,246,317	14,944,006	315,719	4,181,817	(485,386)	2,700,870
Accumulated depreciation	(16,099,088)	(32,450,874)	(12,665,138)	(11,228,512)	-	(3,403,769)	-	-
<b>Total</b>	<b>3,952,483</b>	<b>18,279,142</b>	<b>2,581,179</b>	<b>3,715,494</b>	<b>315,719</b>	<b>778,048</b>	<b>(485,386)</b>	<b>2,700,870</b>
At 06/30/17								
Cost	20,613,165	51,677,722	15,967,057	15,257,478	313,805	4,273,358	(315,245)	2,180,870
Accumulated depreciation	(16,423,572)	(33,478,606)	(13,298,194)	(11,482,172)	-	(3,554,468)	-	-
<b>Total</b>	<b>4,189,593</b>	<b>18,199,116</b>	<b>2,668,863</b>	<b>3,775,306</b>	<b>313,805</b>	<b>718,890</b>	<b>(315,245)</b>	<b>2,180,870</b>

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

	Consolidated							Assets and facilities under construction
	Switching equipment	Transmission equipment and media	Terminal equipment / modems	Infrastructure	Land	Other P&E	Estimated losses (1)	
<b>Balances and changes:</b>								
<b>Balance at 12/31/15</b>	<b>3,958,959</b>	<b>16,977,004</b>	<b>3,146,109</b>	<b>3,655,951</b>	<b>315,705</b>	<b>1,066,452</b>	<b>(494,149)</b>	<b>1,850,734</b>
Additions	16,135	373,912	162,396	25,916	-	49,719	(6,369)	2,037,953
Write-offs, net (2)	(2,792)	(13,261)	(419)	(95,787)	(201)	-	6,821	(12,630)
Net transfers	196,652	1,032,493	345,955	356,754	-	(169,532)	-	(1,867,024)
Depreciation (Note 23)	(358,312)	(1,132,146)	(702,789)	(258,668)	-	(148,048)	-	-
<b>Balance at 06/30/16</b>	<b>3,810,642</b>	<b>17,238,002</b>	<b>2,951,252</b>	<b>3,684,166</b>	<b>315,504</b>	<b>798,591</b>	<b>(493,697)</b>	<b>2,009,033</b>
Additions	38	244,550	41,379	133,165	215	238,947	(13,593)	3,505,445
Write-offs, net	(1)	(8,182)	(397)	(3,650)	-	3,059	21,718	(26,329)
Net transfers	365,426	1,878,761	331,617	167,241	-	9,830	(3)	(2,758,119)
Depreciation (Note 23)	(223,465)	(1,073,897)	(735,544)	(255,715)	-	(231,071)	-	-
<b>Balance at 12/31/16</b>	<b>3,952,640</b>	<b>18,279,234</b>	<b>2,588,307</b>	<b>3,725,207</b>	<b>315,719</b>	<b>819,356</b>	<b>(485,575)</b>	<b>2,730,030</b>
Additions	-	17,364	58,206	27,967	-	105,939	(30,399)	2,330,383
Write-offs, net	(569)	(69,798)	(131)	(6,754)	(1,914)	(581)	67,960	(13,538)
Net transfers	539,699	1,199,919	670,603	308,961	-	20,964	132,578	(2,855,292)
Depreciation (Note 23)	(302,050)	(1,227,538)	(642,590)	(272,092)	-	(171,101)	-	-
	<b>4,189,720</b>	<b>18,199,181</b>	<b>2,674,395</b>	<b>3,783,289</b>	<b>313,805</b>	<b>774,577</b>	<b>(315,436)</b>	<b>2,191,583</b>



**Balance at  
06/30/17**

At 12.31.16

Cost	20,058,838	50,730,696	15,294,619	15,023,890	315,719	4,308,718	(485,575)	2,730,030
Accumulated depreciation	(16,106,198)	(32,451,462)	(12,706,312)	(11,298,683)	-	(3,489,362)	-	-
<b>Total</b>	<b>3,952,640</b>	<b>18,279,234</b>	<b>2,588,307</b>	<b>3,725,207</b>	<b>315,719</b>	<b>819,356</b>	<b>(485,575)</b>	<b>2,730,030</b>

At 06/30/17

Cost	20,620,433	51,678,402	16,015,356	15,336,721	313,805	4,423,555	(315,436)	2,191,583
Accumulated depreciation	(16,430,713)	(33,479,221)	(13,340,961)	(11,553,432)	-	(3,648,978)	-	-
<b>Total</b>	<b>4,189,720</b>	<b>18,199,181</b>	<b>2,674,395</b>	<b>3,783,289</b>	<b>313,805</b>	<b>774,577</b>	<b>(315,436)</b>	<b>2,191,583</b>

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

(2) Net write-offs regarding "Infrastructure and Assets and Facilities under Construction" for the period ended June 30, 2017, include the amount of R\$99,210 regarding the disposal of 1,655 towers owned by the Company to Telxius Torres Brasil Ltda., a Telefónica subsidiary.

**b) Depreciation rates**

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

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

Description	Annual depreciation rate (%)			
	Company	Revised / Current	Consolidated	Revised / Current
Switching equipment	Previous 10.00 to 14.29	5.00 to 14.29	Previous 8.33 to 20.00	5.00 to 20.00
Transmission equipment and media	5.00 to 14.29	2.50 to 25.00	2.50 to 25.00	2.50 to 25.00

Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

Terminal equipment / modems	10.00 to 66.67	6.67 to 66.67	10.00 to 66.67	6.67 to 66.67
Infrastructure	2.50 to 66.67	2.50 to 66.67	2.50 to 66.67	2.50 to 66.67
Other P&E assets	10.00 to 25.00	10.00 to 25.00	10.00 to 66.67	10.00 to 25.00

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

**c) Property and equipment items pledged in guarantee**

At June 30, 2017, the Company had consolidated amounts of property and equipment items pledged in guarantee for lawsuits, amounting to R\$172,658 (R\$203,600 at December 31, 2016).

**d) Capitalization of borrowing costs**

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

**e) Reversible assets**

The STFC service concession arrangement establishes that all assets owned by the Company and that are indispensable to the provision of the services described in the referred to arrangement are considered “reversible” (returnable to the concession authority). At June 30, 2017, estimated residual value of reversible assets was R\$8,868,251 (R\$8,813,916 at December 31, 2016), which comprised switching and transmission equipment and public use terminals, external network equipment, energy, system and operational support equipment.

**f) Finance leases**

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

	Annual depreciation rates (%)	P&E Cost	06.30.17	Consolidated		12.31.16	Net balance
			Accumulated depreciation	Net balance	P&E Cost	Accumulated depreciation	
Transmission equipment and media	5.00% to 8.33%	252,233	(45,377)	206,856	223,360	(34,203)	189,157
Infrastructure	4.00%	68,382	(11,499)	56,883	67,386	(8,822)	58,564
Other assets	20.00%	116,945	(94,399)	22,546	145,818	(94,935)	50,883
<b>Total</b>		<b>437,560</b>	<b>(151,275)</b>	<b>286,285</b>	<b>436,564</b>	<b>(137,960)</b>	<b>298,604</b>

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****12) INTANGIBLE ASSETS, NET****a) Breakdown, changes and amortization rates**

	Company							
	Indefinite useful life	Finite useful life					Other	Estimated
	Goodwill	Software	Customer portfolio	Trademarks	Licenses	intangible assets	losses for software	under development
<b><u>Annual amortization rate (%)</u></b>	-	20.00	11.76	5.13	3.60 to 6.67	20.00	-	-
<b><u>Balances and changes:</u></b>								
<b>Balance at 12/31/15</b>	10,013,222	2,162,935	861,310	1,242,025	15,635,082	6,495	-	76,471
Additions	-	245,586	-	-	-	7,770	-	316,460
Write-offs, net	-	(2,380)	-	-	-	-	-	-
Net transfers	-	400,819	-	-	-	(3,909)	-	(335,155)
Amortization (Note 23)	-	(434,942)	(210,462)	(51,935)	(457,146)	(2,454)	-	-
Merger (Note 1d)	12,837,141	219,856	2,207,012	22,944	-	56,368	-	-
	22,850,363	2,591,874	2,857,860	1,213,034	15,177,936	64,270	-	57,776

**Balance at  
06/30/16**

Additions	-	369,876	-	-	185,450	4,045	(4,550)	203,103
Write-offs, net	-	2,377	-	-	-	-	-	-
Net transfers	-	216,413	-	-	-	(13,784)	(31)	(197,454)
Amortization	-	(487,333)	(296,640)	(55,214)	(465,418)	(3,833)	-	-

**Balance at**

<b>12/31/16</b>	<b>22,850,363</b>	<b>2,693,207</b>	<b>2,561,220</b>	<b>1,157,820</b>	<b>14,897,968</b>	<b>50,698</b>	<b>(4,581)</b>	<b>63,425</b>
Additions	-	148,917	-	-	-	79	-	457,050
Write-offs, net	-	(3,037)	-	-	-	-	-	-
Net transfers	-	299,684	-	-	-	(24,171)	31	(292,976)
Amortization (Note 23)	-	(480,434)	(296,640)	(42,102)	(464,182)	(3,035)	-	-

**Balance at**

<b>06/30/17</b>	<b>22,850,363</b>	<b>2,658,337</b>	<b>2,264,580</b>	<b>1,115,718</b>	<b>14,433,786</b>	<b>23,571</b>	<b>(4,550)</b>	<b>227,499</b>
-----------------	-------------------	------------------	------------------	------------------	-------------------	---------------	----------------	----------------

## At 12/31/16

Cost	22,850,363	14,019,938	4,513,278	1,658,897	20,237,572	267,065	(4,581)	63,425
Accumulated amortization	-	(11,326,731)	(1,952,058)	(501,077)	(5,339,604)	(216,367)	-	-
<b>Total</b>	<b>22,850,363</b>	<b>2,693,207</b>	<b>2,561,220</b>	<b>1,157,820</b>	<b>14,897,968</b>	<b>50,698</b>	<b>(4,581)</b>	<b>63,425</b>

## At 06/30/17

Cost	22,850,363	14,461,885	4,513,278	1,658,897	20,237,572	238,192	(4,550)	227,499
Accumulated amortization	-	(11,803,548)	(2,248,698)	(543,179)	(5,803,786)	(214,621)	-	-
<b>Total</b>	<b>22,850,363</b>	<b>2,658,337</b>	<b>2,264,580</b>	<b>1,115,718</b>	<b>14,433,786</b>	<b>23,571</b>	<b>(4,550)</b>	<b>227,499</b>

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

	Consolidated							
	Indefinite useful life	Finite useful life					Other	Estimated
	Goodwill	Software	Customer portfolio	Trademarks	Licenses	intangible assets	losses for software	under development
<b><u>Annual amortization rate (%)</u></b>	-	<b>6.67 to 50.00</b>	<b>11.76 to 12.85</b>	<b>5.13 to 66.67</b>	<b>3.60 to 6.67</b>	<b>20.00</b>	-	-
<b><u>Balances and changes:</u></b>								
<b>Balance at 12/31/15</b>	<b>23,062,421</b>	<b>2,385,723</b>	<b>3,154,501</b>	<b>1,274,803</b>	<b>15,635,082</b>	<b>18,190</b>	-	<b>76,471</b>
Additions	-	264,288	-	-	-	15,751	-	316,460
Write-offs, net	-	(2,383)	-	-	-	(11)	-	-
Net transfers	-	399,954	-	-	-	32,990	-	(335,155)
Amortization (Note 23)	-	(454,213)	(296,641)	(61,769)	(457,146)	(2,648)	-	-
<b>Balance at 06/30/16</b>	<b>23,062,421</b>	<b>2,593,369</b>	<b>2,857,860</b>	<b>1,213,034</b>	<b>15,177,936</b>	<b>64,272</b>	-	<b>57,776</b>
Additions	-	370,240	-	-	185,450	4,045	(4,550)	203,103
Write-offs, net	-	2,407	-	-	-	-	(31)	-
Net transfers	-	216,382	-	-	-	(13,783)	-	(197,454)
Amortization	-	(487,877)	(296,640)	(55,214)	(465,418)	(3,832)	-	-
<b>Balance at 12/31/16</b>	<b>23,062,421</b>	<b>2,694,521</b>	<b>2,561,220</b>	<b>1,157,820</b>	<b>14,897,968</b>	<b>50,702</b>	<b>(4,581)</b>	<b>63,425</b>
Additions	-	149,165	-	-	-	79	-	457,050
Write-offs, net	-	(3,037)	-	-	-	-	-	-
Net transfers	-	299,684	-	-	-	(24,171)	31	(292,976)
Amortization (Note 23)	-	(480,770)	(296,640)	(42,102)	(464,182)	(3,035)	-	-

<b>Balance at</b>								
<b>06/30/17</b>	<b>23,062,421</b>	<b>2,659,563</b>	<b>2,264,580</b>	<b>1,115,718</b>	<b>14,433,786</b>	<b>23,575</b>	<b>(4,550)</b>	<b>227,499</b>
At 12/31/16								
Cost	23,062,421	14,062,127	4,513,278	1,658,897	20,237,572	267,074	(4,581)	63,425
Accumulated amortization	-	(11,367,606)	(1,952,058)	(501,077)	(5,339,604)	(216,372)	-	-
<b>Total</b>	<b>23,062,421</b>	<b>2,694,521</b>	<b>2,561,220</b>	<b>1,157,820</b>	<b>14,897,968</b>	<b>50,702</b>	<b>(4,581)</b>	<b>63,425</b>
At 06/30/17								
Cost	23,062,421	14,504,291	4,513,278	1,658,897	20,237,572	238,202	(4,550)	227,499
Accumulated amortization	-	(11,844,728)	(2,248,698)	(543,179)	(5,803,786)	(214,627)	-	-
<b>Total</b>	<b>23,062,421</b>	<b>2,659,563</b>	<b>2,264,580</b>	<b>1,115,718</b>	<b>14,433,786</b>	<b>23,575</b>	<b>(4,550)</b>	<b>227,499</b>

**b) Goodwill breakdown**

	At 06/30/17 and 12/31/16	
	Company	Consolidated
Ajato Telecomunicação Ltda.	149	149
Spanish e Figueira (merged with TDBH) (1)	-	212,058
Santo Genovese Participações Ltda. (2)	71,892	71,892
Telefônica Televisão Participações S.A. (3)	780,693	780,693
Vivo Participações S. A. (4)	9,160,488	9,160,488
GVT Participações S. A. (5)	12,837,141	12,837,141
<b>Total</b>	<b>22,850,363</b>	<b>23,062,421</b>

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

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

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

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

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





(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****13) PERSONNEL, SOCIAL CHARGES AND BENEFITS**

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Salaries and wages	29,226	54,525	30,163	55,476
Social charges and benefits	463,400	375,249	473,118	384,073
Profit sharing	188,514	282,134	190,991	285,887
Share-based payment plans (Note 28)	59,288	45,906	59,661	46,223
<b>Total</b>	<b>740,428</b>	<b>757,814</b>	<b>753,933</b>	<b>771,659</b>
Current	723,793	746,798	737,298	760,643
Non-current	16,635	11,016	16,635	11,016

**14) TRADE ACCOUNTS PAYABLE**

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Sundry suppliers (Opex, Capex, Services and Material)	6,023,140	6,270,535	6,251,062	6,617,240
Amounts payable (operators, cobilling)	260,390	314,959	260,391	314,958
Interconnection / interlink (1)	257,380	369,715	257,380	369,715
Related parties (Note 27)	616,924	656,093	338,390	381,240
<b>Total</b>	<b>7,157,834</b>	<b>7,611,302</b>	<b>7,107,223</b>	<b>7,683,153</b>

Current	7,157,834	7,539,395	7,107,223	7,611,246
Non-current	-	71,907	-	71,907

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

## 15) TAXES, CHARGES AND CONTRIBUTIONS

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Income and social contribution taxes payable	-	-	69,734	11,520
ICMS	1,172,193	1,187,244	1,211,949	1,226,172
PIS and COFINS	357,538	371,838	408,151	412,149
Fust and Funttel	94,272	92,828	94,272	92,828
ISS, CIDE and other taxes	74,936	67,420	85,136	77,193
<b>Total</b>	<b>1,698,939</b>	<b>1,719,330</b>	<b>1,869,242</b>	<b>1,819,862</b>
Current	1,679,310	1,698,334	1,822,688	1,770,731
Non-current	19,629	20,996	46,554	49,131

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

**16) DIVIDENDS AND INTEREST ON EQUITY (IOE)**

**a) Dividends and interest on equity receivable**

On June 30, 2017, the Company had the amount of R\$384,588 receivable from TData, referring to additional dividends for the year 2016, approved at a TData's Ordinary General Meeting held on April 17, 2017.

**b) Dividends and interest on equity payable**

**b.1) Breakdown:**

	Company/Consolidated	
	06/30/17	12/31/16
Telefónica Latinoamérica Holding S.L.	1,056,624	454,583
Telefónica S.A.	1,272,342	547,390
SP Telecomunicações Participações Ltda	802,121	345,090
Telefónica Chile S.A.	2,236	962
Non-controlling interest	1,436,372	847,006
<b>Total</b>	<b>4,569,695</b>	<b>2,195,031</b>

b.2) Changes:

	Company/ Consolidated
<b>Balance at 12/31/16</b>	<b>2,195,031</b>
Supplementary dividends for 2016	1,913,987
Interim interest on equity (net of IRRF)	531,250
Unclaimed dividends and interest on equity	(72,840)
Payment of dividends and interest on equity	(671)
IRRF on shareholders exempt/immune from interest on equity	2,938
<b>Balance at 06/30/17</b>	<b>4,569,695</b>

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

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

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

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

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

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

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****17) PROVISIONS AND CONTINGENCIES**

The Company and its subsidiaries are parties to administrative and judicial proceedings and labor, tax and civil claims filed in different courts. The management of the Company and its subsidiaries, based on the opinion of its legal counsel, recognized provisions for proceedings for which an unfavorable outcome is considered probable.

Breakdown of changes in provisions for cases in which an unfavorable outcome is probable, in addition to contingent liabilities and provisions for decommissioning are as follows:

	Company					Contingent liabilities (PPA) (1)	Provision for decommissioning (2)
	Labor	Tax	Civil	Regulatory			
<b>Balances at 12/31/15</b>	<b>1,140,492</b>	<b>2,684,924</b>	<b>965,730</b>	<b>595,028</b>	<b>286,983</b>	<b>298,751</b>	<b>5,9</b>
Inflows (income)	242,533	77,775	324,621	60,190	7,357	-	7
Inflows (except income)	-	100,314	4,754	-	-	27,576	1
Write-offs due to payment	(190,696)	(135,348)	(192,283)	(352)	-	-	(51)
Write-offs due to reversal (income)	(35,259)	(41,175)	(141,557)	(5,355)	(3,637)	(1,348)	(22)
Monetary restatement	66,655	163,073	91,227	33,910	23,067	10,501	3
Merger (note 1d)	35,236	14,597	46,284	51,701	555,486	89,541	7
<b>Balances at 06/30/16</b>	<b>1,258,961</b>	<b>2,864,160</b>	<b>1,098,776</b>	<b>735,122</b>	<b>869,256</b>	<b>425,021</b>	<b>7,2</b>
Inflows (income)	345,571	48,663	350,112	63,342	(7,357)	-	8
Inflows (except income)	-	-	3,072	-	-	135,052	1
Write-offs due to payment	(203,777)	(11,280)	(334,570)	(2,209)	(11,240)	-	(56)

Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

Write-offs due to reversal (income)	(112,814)	(10,666)	(199,733)	(5,196)	(4,412)	(19,203)	(35,000)
Monetary restatement	86,629	218,929	120,573	37,875	35,498	961	5,000
<b>Balances at 12/31/16</b>	<b>1,374,570</b>	<b>3,109,806</b>	<b>1,038,230</b>	<b>828,934</b>	<b>881,745</b>	<b>541,831</b>	<b>7,700</b>
Inflows (income)	519,784	112,441	345,268	38,825	-	-	1,000
Inflows (except income)	-	100,252	(450)	-	-	10,432	1,000
Write-offs due to payment	(366,992)	(286)	(253,946)	(2,142)	-	-	(62,000)
Write-offs due to reversal (income)	(350,269)	(10,214)	(132,523)	(3,906)	(70,901)	-	(56,000)
Monetary restatement	69,137	236,616	67,436	37,573	32,706	7,200	4,000
<b>Balances at 06/30/17</b>	<b>1,246,230</b>	<b>3,548,615</b>	<b>1,064,015</b>	<b>899,284</b>	<b>843,550</b>	<b>559,463</b>	<b>8,100</b>
At 12/31/16							
Current	202,113	-	205,831	775,679	-	-	- 1,100
Non-current	1,172,457	3,109,806	832,399	53,255	881,745	541,831	6,500
At 06/30/17							
Current	240,438	-	221,037	826,860	-	-	- 1,200
Non-current	1,005,792	3,548,615	842,978	72,424	843,550	559,463	6,800

---



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

	Provisions for contingencies				Consolidated	Provision for decommissioning (2)
	Labor	Tax	Civil	Regulatory	Contingent liabilities (PPA) (1)	
<b>Balances at 12/31/15</b>	<b>1,166,151</b>	<b>2,736,191</b>	<b>1,010,356</b>	<b>642,695</b>	<b>843,882</b>	<b>405,421</b>
Inflows (income)	261,157	77,775	340,238	63,172	12,685	-
Inflows (except income)	-	100,314	4,754	-	-	30,758
Write-offs due to payment	(192,680)	(147,743)	(203,766)	(360)	-	-
Write-offs due to reversal (income)	(40,141)	(42,950)	(143,283)	(5,355)	(10,006)	(19,370)
Monetary restatement	67,022	160,182	91,360	34,970	22,695	12,968
<b>Balances at 06/30/16</b>	<b>1,261,509</b>	<b>2,883,769</b>	<b>1,099,659</b>	<b>735,122</b>	<b>869,256</b>	<b>429,777</b>
Inflows (income)	350,619	48,671	350,232	63,342	(12,685)	-
Inflows (except income)	958	-	3,143	-	-	131,870
Write-offs due to payment	(204,214)	(11,296)	(334,543)	(2,220)	(11,240)	-
Write-offs due to reversal (income)	(113,617)	(10,666)	(199,733)	(5,197)	918	(13,554)
Monetary restatement	87,702	219,203	120,599	37,887	35,496	(1,506)
<b>Balances at 12/31/16</b>	<b>1,382,957</b>	<b>3,129,681</b>	<b>1,039,357</b>	<b>828,934</b>	<b>881,745</b>	<b>546,587</b>
Inflows (income)	521,324	122,586	346,887	38,825	-	-
Inflows (except income)	492	100,252	(450)	-	-	10,432
Write-offs due to payment	(368,529)	(286)	(254,247)	(2,142)	-	-
Write-offs due to reversal (income)	(350,688)	(10,214)	(133,419)	(3,906)	(70,901)	-
Monetary restatement	69,775	247,249	67,739	37,573	32,706	7,200
<b>Balances at 06/30/17</b>	<b>1,255,331</b>	<b>3,589,268</b>	<b>1,065,867</b>	<b>899,284</b>	<b>843,550</b>	<b>564,219</b>
At 12/31/16						
Current	202,113	-	205,831	775,679	-	-
Non-current	1,180,844	3,129,681	833,526	53,255	881,745	546,587
At 06/30/17						
Current	240,438	-	221,037	826,860	-	-
Non-current	1,014,893	3,589,268	844,830	72,424	843,550	564,219

(1) This refers to contingent liabilities arising from Purchase Price Allocation (PPA) generated on acquisition of the controlling interest of Vivo Participações in 2011 and GVTPart. in 2015 (Note 1c).

(2) These refer to costs to be incurred to return the sites (locations for installation of base radio, equipment and real estate) to their respective owners in the same conditions as at the time of execution of the initial lease agreement.

**a) Provisions and labor contingencies**

<u>Nature / Level of Risk</u>	Amounts involved			
	Company			Consolidated
	06/30/17	12/31/16	06/30/17	12/31/16
Provisions - probable losses	1,246,230	1,374,570	1,255,331	1,382,957
Possible losses	253,861	275,483	265,190	293,146

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

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

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



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****b) Provisions and tax contingencies**

<u>Nature / Level of Risk</u>	Amounts involved			
	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Provisions - probable losses	3,548,615	3,109,806	3,589,268	3,129,681
Federal	490,904	343,353	490,904	343,353
State	311,690	226,571	330,961	226,571
Municipal	31,742	30,519	31,742	30,519
FUST, FISTEL and EBC	2,714,279	2,509,363	2,735,661	2,529,238
Possible losses	29,948,662	29,539,669	30,464,281	30,050,578
Federal	6,181,947	5,917,148	6,198,113	5,931,022
State	15,772,382	14,999,333	16,161,885	15,389,802
Municipal	537,231	852,926	537,813	853,244
FUST, FUNTTEL, FISTEL and EBC	7,457,102	7,770,262	7,566,470	7,876,510

**b.1) Probable tax contingencies****Federal Taxes**

The Company and/or its subsidiaries are parties to administrative and legal proceedings relating to: (i) claims resulting from the non-ratification of compensation and refund requests formulated; (ii) CIDE levied on the remittance of amounts abroad related to technical and administrative assistance and similar services, as well as royalties; (iii) IRRF on interest on equity; (iv) Social Investment Fund (Finsocial) offset

amounts; and (v) additional charges to the PIS and COFINS tax base, as well as additional charges to COFINS required by Law No. 9,718/98.

At June 30, 2017, consolidated provisions totaled R\$490,904 (R\$343,353 at December 31, 2016).

#### State taxes

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

At June 30, 2017, consolidated provisions totaled R\$330,961 (R\$226,571 at December 31, 2016).

#### Municipal taxes

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

At June 30, 2017, consolidated provisions totaled R\$31,742 (R\$30,519 at December 31, 2016).

#### FUST, FISTEL and EBC

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

At June 30, 2017, consolidated provisions totaled R\$2,735,661 (R\$2,529,238 at December 31, 2016).



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

b.2) Possible tax contingencies

Management and its legal counsel understand that losses are possible in the following federal, state, municipal and ANATEL proceedings:

Federal taxes

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

The most important of these proceedings are: (i) statements of dissatisfaction resulting from failure to approve requests for compensation submitted by the Company; (ii) INSS (social security contribution) (a) on compensation payment for salary losses arising from the "*Plano Verão*" and the "*Plano Bresser*"; (b) SAT, social security amounts owed to third parties (INCRA and SEBRAE) and (c) supply of meals to employees, withholding of 11% (assignment of workforce); (iii) IRRF/CIDE on the funds remitted abroad related to technical services and to administrative support and similar services, etc., and royalties; (iv) IRPJ and CSLL - disallowance of costs and sundry expenses not evidenced; (v) deduction of COFINS on swap operation losses; (vi) PIS and COFINS accrual basis versus cash basis; (vii) IRPJ FINOR, FINAN and FUNRES; (viii) IRPJ and CSLL, disallowance of expenses on goodwill of the corporate restructuring of Vivo S.A., and for the takeovers of Navytree, TDBH, VivoPart. and GVTPart.; (ix) ex-tariff, cancellation of the

benefits under CAMEX Resolution No. 6, increase in the import duty from 4% to 28%; (x) IPI levied on shipment of fixed access units from the Company's establishment; (xi) PIS and COFINS levied on value-added services and monthly subscription services; (xii) INSS on Stock Options - requirement of social security contributions on amounts paid to employees under the stock option plan; and (xiii) IOF - required on loan transactions, intercompany loans and credit transactions.

At June 30, 2017, consolidated amounts involved totaled R\$6,198,113 (R\$5,931,022 at December 31, 2016).

### State taxes

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

Among these lawsuits, the following are highlighted: (i) provision of facility, utility and convenience services and rental of the "Speedy" service modem; (ii) international calls (DDI); (iii) reversal of ICMS credit related to the acquisition of items of property, plant and equipment and payment of ICMS in interstate transfers of property, plant and equipment between branches; (iv) reversal of previously unused ICMS credits; (v) service provided outside São Paulo state with ICMS paid to São Paulo State; (vi) co-billing; (vii) tax substitution with a fictitious tax base (tax guideline); (viii) use of credits related to acquisition of electric power; (ix) secondary activities, value added and supplementary services; (x) tax credits related to opposition/challenges regarding telecommunications services not provided or mistakenly charged (Agreement 39/01); (xi) shipment of goods with prices lower than acquisition prices (unconditional discounts); (xii) deferred collection of ICMS - interconnection (DETRAF - Traffic and Service Provision Document); (xiii) credits derived from tax benefits granted by other states; (xiv) disallowance of tax incentives related to cultural projects; (xv) transfers of assets among business units owned by the Company; (xvi) communications service tax credits used in provision of services of the same nature; (xvii) card donation for prepaid service activation; (xviii) reversal of credit from return and free lease in connection with assignment of networks (used by the Company itself and exemption of public bodies); (xix) DETRAF fine; (xx) ICMS on own consumption; (xxi) ICMS on exemption of public bodies; (xxii) ICMS on amounts given by way of discounts; (xxiii) new tax register bookkeeping without prior authorization by tax authorities; (xxiv) ICMS on monthly subscription; and (xxv) tax on unmeasured services.

At June 30, 2017, consolidated amounts involved totaled R\$16,161,885 (R\$15,389,802 at December 31, 2016).

### Municipal taxes





(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

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

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

At June 30, 2017, consolidated amounts involved totaled R\$537,813 (R\$853,244 at December 31, 2016).

*FUST, FUNTTEL, FISTEL and EBC*

*Universal Telecommunications Services Fund ("FUST")*

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

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

At June 30, 2017, consolidated amounts involved totaled R\$4,124,804 (R\$4,089,065 at December 31, 2016).

*Fund for Technological Development of Telecommunications ("FUNTTEL")*

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

Several notifications of debits drawn up by the Ministry of Communications in administrative actions for constitution of the tax credit related to the interconnection, network resources and other revenues that do not originate from the provision of telecommunication services.

At June 30, 2017, consolidated amounts involved totaled R\$467,154 (R\$1,190,637 at December 31, 2016).

*Telecommunications Inspection Fund ("FISTEL")*

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

At June 30, 2017, consolidated amounts involved totaled R\$2,492,114 (R\$2,352,000 at December 31, 2016).

*Contribution to Empresa Brasil de Comunicação (EBC)*

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

At June 30, 2017, consolidated amounts involved totaled R\$482,398 (R\$244,808 at December 31, 2016).

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

**c) Provisions and civil contingencies**

<u>Nature / Level of Risk</u>	Company		Amounts involved		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16	06/30/17	12/31/16
Provisions - probable losses	1,064,015	1,038,230	1,065,867	1,039,357		
Possible losses	2,764,577	2,573,459	2,765,234	2,574,836		

Provisions for probable civil losses

- The Company and/or its subsidiaries are parties to proceedings involving rights to the supplementary amounts from shares calculated on network expansion plans since 1996 (supplement of share proceedings). These proceedings are at different stages: lower courts, court of justice and high court of justice. At June 30, 2017, consolidated provisions totaled R\$302,382 (R\$256,276 at December 31, 2016).
- The Company and/or its subsidiaries are parties to various civil proceedings related to consumers at the administrative and judicial level, relating to the non-provision of services and/or products sold. At June 30, 2017, consolidated provisions totaled R\$367,174 (R\$386,699 at December 31, 2016).
- The Company and/or its subsidiaries are parties to various civil proceedings of a non-consumer nature at administrative and judicial levels, all arising in the ordinary course of business. At June 30, 2017,

consolidated provisions totaled R\$396,311 (R\$396,382 at December 31, 2016).

Civil contingencies assessed as possible losses

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

- Collective Action filed by SISTEL Participants' Association (ASTEL) in the state of São Paulo, in which SISTEL associates in the state of São Paulo challenge the changes made in the health insurance plan for retired employees ("PAMA") and claim for the reestablishment of the prior "status quo". This proceeding is still in the appeal phase, and awaits a decision on the Interlocutory Appeal filed by the Company against the decision on possible admission of the appeal to higher and supreme courts filed in connection with the Court of Appeals' decision, which changed the decision rendering the matter groundless. The amount cannot be estimated, and the claims cannot be settled due to their unenforceability because it entails the return to the prior plan conditions.
  - Civil Class Actions filed by ASTEL, in the state of São Paulo, and by the Brazilian National Federation of Associations of Retirees, Pensioners and Pension Fund Members of the Telecommunications Industry (FENAPAS), both against SISTEL, the Company and other carriers, in order to annul the spin-off of the PBS private pension plan, alleging, in short, the "windup of the supplementary private pension plan of the SISTEL Foundation", which led to various specific mirror PBS plans, and corresponding allocation of funds from technical surplus and tax contingencies existing at the time of the spin-off. The amount cannot be estimated, and the claims cannot be settled due to their unenforceability because this involves the return of the spun-off assets of SISTEL relating to telecommunication carriers of the former Telebrás System.
  - The Company is party to other civil claims, at several levels, related to service rendering rights. Such claims have been filed by individual consumers, civil associations representing consumer rights or by the Bureau of Consumer Protection (PROCON), as well as by the Federal and State Public Prosecutor's Office. The Company is also party to other claims of several types related to the ordinary course of business. At June 30, 2017, the consolidated amount totaled R\$2,750,859 (R\$2,559,252 at December 31, 2016).
-

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

- TGLog (company controlled by TData) is a party to the civil enforcement action process in the 3rd Civil Court of Barueri - SP for the allegation of contractual noncompliance with the transportation of goods. At June 30, 2017, the amount was R\$168 (R\$1,377 at December 31, 2016).
- The Company has received notices regarding noncompliance with the Customer Service (SAC) Decree. The Company is currently party to various lawsuits (administrative and legal proceedings). At June 30, 2017 and at December 31, 2016, the amount was R\$14,207.
- Intellectual Property: Lune Projetos Especiais Telecomunicação Comércio e Ind. Ltda. (Lune), a Brazilian company, filed an action on November 20, 2001 against 23 wireless carriers claiming to own the patent for caller ID and the trademark "Bina". The purpose of that lawsuit was to interrupt provision of such service by carriers and to seek indemnification equivalent to the amount paid by consumers for using the service. An unfavorable decision was handed down determining that the Company should refrain from selling mobile phones with Caller ID service ("Bina"), subject to a daily fine of R\$10,000 (Ten thousand reais) in case of noncompliance. Furthermore, according to that decision, the Company must pay indemnification for royalties, to be calculated in settlement. Motions for Clarification were proposed by all parties and Lune's motions for clarification were accepted since an injunctive relief in this stage of the proceedings was deemed applicable. A bill of review appeal was filed in view of the current decision which granted a stay of execution suspending that unfavorable decision until final judgment of the review. A bill of review was filed in view of the sentence handed down on June 30, 2016, by the 4th Chamber of the Court of Justice of the Federal District, in order to annul the lower court sentence and remit the proceedings back to the lower court for a new examination. At the present time, we await the judgment of the regimetal grievance filed against a decision prior to the judgment, which rejected the application of the former lawyers of Lune as assistants of the author. There is no way to determine the extent of potential liabilities with respect to this claim.

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

**d) Provisions and regulatory contingencies**

<u>Nature / Level of Risk</u>	Amounts involved			
	Company			Consolidated
	06/30/17	12/31/16	06/30/17	12/31/16
Provisions - probable losses	899,284	828,934	899,284	828,934
Possible losses	5,035,111	5,018,205	5,035,111	5,018,205

Provisions for regulatory contingencies assessed as probable losses

The Company is party to administrative proceedings against ANATEL, filed based on an alleged failure to meet sector regulations, and to judicial proceedings to contest sanctions applied by ANATEL at the administrative level. At June 30, 2017, consolidated provisions totaled R\$899,284 (R\$828,934 at December 31, 2016).

Regulatory contingencies assessed as possible losses

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

- The Company is party to administrative proceedings filed by ANATEL alleging noncompliance with the obligations set forth in industry regulations, as well as legal claims which discuss the sanctions applied by ANATEL at the administrative level. At June 30, 2017, the consolidated amount was R\$5,035,111 (R\$5,018,205 at December 31, 2016).



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

- Administrative and judicial proceedings discussing payment of a 2% charge on interconnection services revenue arising from the extension of right of use of SMP related radio frequencies. Under clause 1.7 of the authorization term that grants right of use of SMP related radio frequencies, the extension of right of use of such frequencies entails payment every two years, during the extension period (15 years) of a 2% charge calculated on net revenues from the service provider's Basic and Alternative Plans of the service company, determined in the year before that of payment.

However, ANATEL determined that in addition to revenues from Service Plans, the charge corresponding to 2% should also be levied on interconnection revenues and other operating revenues, which is not stipulated in clause 1.7 of referred Authorization Term.

Considering, based on the provisions of the Authorization Terms, that revenue from interconnection services should not be included in the calculation of the 2% charge for radiofrequency use right extension, the Company filed administrative and legal proceedings challenging these charges, based on ANATEL's position.

Term of Conduct Adjustment ("TAC")

The Board of Directors of ANATEL approved, on October 27, 2016, the Company's TAC. On June 30, 2017, this instrument is still being analyzed by the Brazilian Court of Audit ("TCU"), which will review the bases for ANATEL's decision.

**e) Guarantees**

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

	Consolidated					
	06/30/17			12/31/16		
	Property and equipment	Judicial deposits and garnishments	Letters of guarantee	Property and equipment	Judicial deposits and garnishments	Letters of guarantee
Civil, labor and tax	172,658	6,578,208	1,919,168	203,600	6,351,566	1,948,088
<b>Total</b>	<b>172,658</b>	<b>6,578,208</b>	<b>1,919,168</b>	<b>203,600</b>	<b>6,351,566</b>	<b>1,948,088</b>

At June 30, 2017, in addition to the guarantees presented above, the Company and its subsidiaries had amounts under short-term investment frozen by courts (except for loan-related investments) in the consolidated amount of R\$70,648 (R\$67,393 at December 31, 2016).

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

**18) DEFERRED REVENUE**

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Services (1)	335,907	389,706	335,907	389,706
Disposal of PP&E (2)	284,707	227,397	284,707	227,397
Activation revenue (3)	21,629	44,117	22,189	44,914
Customer loyalty program (4)	62,416	56,210	62,416	56,210
Government grants (5)	122,886	133,300	122,886	133,300
Donations of equipment (6)	7,970	8,044	7,970	8,044
Other revenues (7)	78,754	81,500	78,754	82,068
<b>Total</b>	<b>914,269</b>	<b>940,274</b>	<b>914,829</b>	<b>941,639</b>
Current	467,676	428,488	468,236	429,853
Non-current	446,593	511,786	446,593	511,786

(1) This refers mainly to the balances of revenues from recharging prepaid services, which are recognized in income as services are provided to customers. It includes the amount of the agreement the Company entered into for industrial use of its mobile network by a different SMP operator in Regions I, II and III of the general authorizations plan, which is intended solely for the rendering of SMP services by the operator for its customers.

(2) Includes the net balances of the residual values from sale of non-strategic towers and rooftops, which are transferred to income as the conditions for recognition are fulfilled.

(3) This refers to the deferred activation revenue (fixed) recognized in income over the estimated period in which a customer remains in the base.

(4) This refers to points earned under the Company's loyalty program, which enables customers to accumulate points by paying bills relating to use of services offered. The balance represents the Company's estimate of customers exchanging points for goods and / or services in the future.

(5) This refers to: i) government subsidy arising from funds obtained from BNDES credit lines to be used in the acquisition of domestic equipment, which have been amortized over the useful life cycle of the equipment; and ii) subsidies arising from projects related to state taxes, which are being amortized over the contractual period.

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

(7) Includes amounts of the reimbursement for costs for leaving radio frequency sub-bands 2,500MHz to 2,690MHz due to cancellation of the Multichannel Multipoint Distribution Service (MMDS).

## **19) LOANS, FINANCING AND DEBENTURES**

### **a) Breakdown**

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

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

Information as of June 30, 2017					Company / Consolidated 06/30/17			12/31/17	
	Currency	Annual interest rate	Maturity	Garantees	Current	Non-current	Total	Current	Non-current
<b>Local currency</b>					<b>1,298,317</b>	<b>2,593,439</b>	<b>3,891,756</b>	<b>1,480,382</b>	<b>2,901,500</b>
<b>Financial Institutions (a.1)</b>					<b>752,894</b>	<b>1,828,519</b>	<b>2,581,413</b>	<b>711,848</b>	<b>2,158,300</b>
BNDES FINEM - Contract 11.2.0814.1	URTJLP	TJLP+ 0 to 4.08%	7-15-2019	(1)	367,849	394,634	762,483	363,734	567,100
BNDES FINEM - Contract 08.2.1073.1	URTJLP	TJLP+ 2.05% to 2.95%	6-15-2017	(3)	-	-	-	29,319	-
BNDES FINEM - Contract 11.2.0963.1	URTJLP	TJLP+ 0 to 3.38%	8-15-2020	(3)	183,196	392,734	575,930	182,737	480,500
BNDES FINEM - Contract 11.2.0963.1	R\$	5.00%	11-15-2019	(3)	14,661	20,674	35,335	14,686	27,900
BNDES FINEM - Contract 14.2.1192.1	URTJLP	TJLP+ 0 to 3.12%	1-15-2023	(3)	50,622	460,553	511,175	7,596	499,400
BNDES FINEM - Contract 14.2.1192.1	R\$	4.00% to 6.00%	1-15-2023	(3)	27,341	139,079	166,420	12,320	163,200
	R\$		1-15-2023	(3)	31,670	329,952	361,622	1,408	340,600

BNDES FINEM - Contract 14.2.1192.1		Selic Acum. D-2 + 2.32% 2.5% to							
BNDES PSI	R\$	5.5% 7.06% to	1-15-2023	(2)	62,476	28,712	91,188	92,508	44,6
BNB	R\$	10.00%	8-18-2022	(4)	15,079	62,181	77,260	7,540	34,7
<b>Suppliers (a.2)</b>	<b>R\$</b>	<b>105.7% a 113.7% of CDI</b>	<b>4-30-2018</b>		<b>504,872</b>	<b>-</b>	<b>504,872</b>	<b>722,591</b>	
<b>Finance lease (a.3)</b>	<b>R\$</b>	<b>IPCA and IGP-M</b>	<b>8-31-2033</b>		<b>40,551</b>	<b>332,012</b>	<b>372,563</b>	<b>45,943</b>	<b>328,4</b>
<b>Contingent Consideration (a.4)</b>	<b>R\$</b>	<b>Selic</b>			<b>-</b>	<b>432,908</b>	<b>432,908</b>	<b>-</b>	<b>414,7</b>
<b><u>Foreign Currency</u></b>					<b>754,749</b>	<b>154,980</b>	<b>909,729</b>	<b>1,062,593</b>	<b>225,2</b>
<b>Financial Institutions (a.1)</b>					<b>754,749</b>	<b>154,980</b>	<b>909,729</b>	<b>1,062,593</b>	<b>225,2</b>
BNDES FINEM - Contract 11.2.0814.1 Resolution 4131 - Scotiabank and Bank of America	UMBND      US\$	ECM + 2.38%  2.05% and Libor + 2.00%	7-15-2019   12-18-2017	(1)	141,301   613,448	154,980   -	296,281   613,448	136,850   925,743	225,2
<b>Total</b>					<b>2,053,066</b>	<b>2,748,419</b>	<b>4,801,485</b>	<b>2,542,975</b>	<b>3,126,7</b>

**Guarantees**

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

(2) Pledge of financed assets.

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

(4) Bank guarantee provided by Banco Safra in an amount equivalent to 100% of the outstanding financing debt balance. Setting up a liquidity fund represented by financial investments in the amount equivalent to three installments of repayment referenced to the average post-grace period performance. Balances were R\$11,376 and R\$10,773 at June 30, 2017 and December 31, 2016, respectively.

a.1) Financial Institutions

Banco do Nordeste ("BNB")

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

a.2) Financing - Suppliers

Under bilateral agreements with suppliers, the Company obtained extension of the terms for payment of trade accounts payable at a cost based on fixed CDI rate for the corresponding periods, with the net cost equivalent to between 105.7% and 113.7% of CDI (108.4% of CDI as of December 31, 2016).

a.3) Finance leasing

The Company is lessee in contracts classified as financial leasing, related to: (i) lease of towers and rooftops arising from sale and finance leaseback transactions; (ii) lease of Built to Suit ("BTS") sites to install antennas and other equipment and transmission facilities; (iii) lease of information technology equipment and; (iv) lease of infrastructure and transmission facilities. The net carrying amount of the assets has remained unchanged until sale thereof, and a liability is recognized corresponding to the present value

of mandatory minimum installments of the agreement.

---



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

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

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

	Company / Consolidated	
	06/30/17	12/31/16
Nominal value payable	803,587	831,479
Unrealized financial expenses	(431,024)	(457,051)
<b>Present value payable</b>	<b>372,563</b>	<b>374,428</b>
Current	40,551	45,943
Non-current	332,012	328,485

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

	Company / Consolidated	
	Nominal value payable	Present value payable
Up to 1 year	47,224	40,551
From 1 to 5 years	199,371	141,820
Over five years	556,992	190,192
<b>Total</b>	<b>803,587</b>	<b>372,563</b>

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

a.4) Contingent Consideration

As part of the Purchase and Sale Agreement and Other Covenants executed by and between the Company and Vivendi to acquire all shares in GVTPart (Note 1c), a contingent consideration relating to the judicial deposit made by GVT for the monthly installments of deferred income tax and social contribution on goodwill amortization was agreed, arising from the corporate restructuring process completed by GVT in 2013. If these funds are realized (being reimbursed, refunded, or via netting), they will be returned to Vivendi, as long as they are obtained in a final unappeasable decision. Reimbursement will be made within 15 years and this amount is subject to monthly restatement at the SELIC rate.

b) Debentures

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

5th Issue

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

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

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

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

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

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

Issue	Issue date	Maturity	Information as of June 30, 2017		Company / Consolidated		06/30/17		Total
			Issued	Outstanding	Issue value	Remuneration p.a.	Current	Non-current	
4th issue – Series 3	10-15-2009	10-15-2019	810,000	23,557	810,000	IPCA+4,00%	1,052	38,497	39,549
1st issue – Minas Comunica	12-17-2007	7-5-2021	5,550	5,550	55,500	IPCA+0,50% 100% do CDI	-	99,139	99,139
3rd issue	9-10-2012	9-10-2017	200,000	200,000	2,000,000	+ 0,75% 100% do CDI	2,069,525	-	2,069,525
4th issue	4-25-2013	4-25-2018	130,000	130,000	1,300,000	+ 0,68% 108,25% do	1,325,842	-	1,325,842
5th issue	2-8-2017	2-8-2022	200,000	200,000	2,000,000	CDI	90,689	1,995,787	2,086,476
<b>Total</b>							<b>3,487,108</b>	<b>2,133,423</b>	<b>5,620,531</b>

Transaction costs in connection with the 3rd, 4th and 5th issues, totaling R\$5,320 at June 30, 2017 (R\$495 at December 31, 2016), were allocated as a reduction of liabilities as costs to be incurred and are

recognized as financial expenses, according to the contractual terms of each issue.

**c) Repayment schedule**

At June 30, 2017, breakdown of non-current loans, financing, finance leasing, debentures and contingent consideration by year of maturity is as follows:

<u>Year</u>	Company / Consolidated				Total
	Loans and financing	Debentures	Finance lease	Contingent consideration	
2018	471,005	57,514	42,327	-	570,846
2019	730,413	52,372	39,307	-	822,092
2020	346,698	13,875	30,853	-	391,426
2021	219,938	1,009,446	29,332	-	1,258,716
2022 onwards	215,445	1,000,216	190,193	432,908	1,838,762
<b>Total</b>	<b>1,983,499</b>	<b>2,133,423</b>	<b>332,012</b>	<b>432,908</b>	<b>4,881,842</b>

**d) Covenants**

There are loans and financing with BNDES (Note 19.a) and debentures (Note 19.b) with specific covenants involving a penalty in the event of breach of contract. A breach of contract provided for in the agreements with the institutions listed above is characterized as noncompliance with covenants (analyzed on a quarterly, half-yearly or yearly basis), being a breach of a contractual clause, resulting in the early maturity of the contract.

At June 30, 2017 and December 31, 2016 all economic and financial ratios established in existing contracts have been achieved.

**e) Changes**

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



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

	Company					Total
	Loans and financing - Financial Institutions	Debentures	Finance lease	Financing - Suppliers	Contingent consideration	
<b>Balance at 12/31/15</b>	<b>3,190,529</b>	<b>3,544,714</b>	<b>271,530</b>	<b>1,113,244</b>	<b>377,721</b>	<b>8,497,738</b>
Inflows	-	-	2,675	172,933	-	175,608
Financial charges (Note 25)	196,549	239,993	37,892	16,744	16,227	507,405
Issue costs	-	247	-	-	-	247
Foreign exchange variation (Note 25)	(289,009)	-	-	-	-	(289,009)
Write-offs (payments)	(519,024)	(232,402)	(14,689)	(1,053,283)	-	(1,819,398)
Merger (note 1d)	1,532,666	-	22,075	-	-	1,554,741
<b>Balance at 06/30/16</b>	<b>4,111,711</b>	<b>3,552,552</b>	<b>319,483</b>	<b>249,638</b>	<b>393,948</b>	<b>8,627,332</b>
Inflows	466,629	-	59,191	493,152	-	1,018,972
Government grants (Note 18)	(12,040)	-	-	-	-	(12,040)
Financial charges	188,691	246,185	24,350	33,189	20,785	513,200
Issue costs	-	248	-	-	-	248
Foreign exchange variation	16,214	-	-	-	-	16,214
Write-offs (payments)	(613,190)	(244,678)	(28,596)	(53,388)	-	(939,852)
<b>Balance at 12/31/16</b>	<b>4,158,015</b>	<b>3,554,307</b>	<b>374,428</b>	<b>722,591</b>	<b>414,733</b>	<b>9,224,074</b>
Inflows	39,878	2,000,000	5,190	227,465	-	2,272,533
Financial charges (Note 25)	170,108	292,555	18,617	35,246	18,175	534,701
Issue costs	-	(4,825)	-	-	-	(4,825)
Foreign exchange variation (Note 25)	17,054	-	-	-	-	17,054
Write-offs (payments)	(893,913)	(221,506)	(25,672)	(480,430)	-	(1,621,521)
<b>Balance at 06/30/17</b>	<b>3,491,142</b>	<b>5,620,531</b>	<b>372,563</b>	<b>504,872</b>	<b>432,908</b>	<b>10,422,016</b>

  

	Consolidated				Total
	Loans and financing - Financial	Debentures	Finance lease	Financing - Suppliers	

	Institutions					
<b>Balance at 12.31.15</b>	<b>4,773,489</b>	<b>3,544,714</b>	<b>296,684</b>	<b>1,228,682</b>	<b>377,721</b>	<b>10,221,290</b>
Inflows	-	-	2,675	172,933	-	175,608
Financial charges (Note 25)	236,176	239,993	38,653	16,849	16,227	547,898
Issue costs	-	247	-	-	-	247
Foreign exchange variation (Note 25)	(289,009)	-	-	-	-	(289,009)
Write-offs (payments)	(608,945)	(232,402)	(18,529)	(1,168,826)	-	(2,028,702)
<b>Balance at 06/30/16</b>	<b>4,111,711</b>	<b>3,552,552</b>	<b>319,483</b>	<b>249,638</b>	<b>393,948</b>	<b>8,627,332</b>
Inflows	466,629	-	59,191	493,152	-	1,018,972
Government grants (Note 18)	(12,040)	-	-	-	-	(12,040)
Financial charges	188,691	246,185	24,350	33,189	20,785	513,200
Issue costs	-	248	-	-	-	248
Foreign exchange variation	16,214	-	-	-	-	16,214
Write-offs (payments)	(613,190)	(244,678)	(28,596)	(53,388)	-	(939,852)
<b>Balance at 12.31.16</b>	<b>4,158,015</b>	<b>3,554,307</b>	<b>374,428</b>	<b>722,591</b>	<b>414,733</b>	<b>9,224,074</b>
Inflows	39,878	2,000,000	5,190	227,465	-	2,272,533
Financial charges (Note 25)	170,108	292,555	18,617	35,246	18,175	534,701
Issue costs	-	(4,825)	-	-	-	(4,825)
Foreign exchange variation (Note 25)	17,054	-	-	-	-	17,054
Write-offs (payments)	(893,913)	(221,506)	(25,672)	(480,430)	-	(1,621,521)
<b>Balance at 06/30/17</b>	<b>3,491,142</b>	<b>5,620,531</b>	<b>372,563</b>	<b>504,872</b>	<b>432,908</b>	<b>10,422,016</b>



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****20) OTHER LIABILITIES**

	Company		Consolidated	
	06/30/17	12/31/16	06/30/17	12/31/16
Authorization licenses (1)	248,131	1,048,523	248,131	1,048,523
Liabilities with related parties (Note 27)	15,278	145,332	9,931	112,358
Payment for license renewal (2)	158,094	215,154	158,094	215,154
Third-party withholdings (3)	119,275	222,696	122,897	227,685
Surplus from post-employment benefit plans (Note 29)	343,482	327,670	343,482	327,670
Amounts to be refunded to subscribers	173,837	166,644	175,506	168,708
Other liabilities	95,380	90,815	93,475	92,447
<b>Total</b>	<b>1,153,477</b>	<b>2,216,834</b>	<b>1,151,516</b>	<b>2,192,545</b>
Current	562,664	1,641,926	562,990	1,640,757
Non-current	590,813	574,908	588,526	551,788

(1) Includes a portion of the Company's liability arising from an agreement entered into with ANATEL, whereby the operators that won the auction of the 4G licences organized Entidade Administradora do Processo de Redistribuição e Digitalização de Canais de TV e RTV ("EAD"), which will be responsible for equally performing all TV and RTV channel redistribution procedures and solutions to harmful interference in radio communication systems, in addition to other operations in which the winning operators have obligations, as defined in the agreement. On January 31, 2017, the Company paid R\$858,991 to EAD, referring to the 2nd and 3rd installments of the auction of 700 MHz national frequency bands for the provision of SMP, performed by ANATEL on September 30, 2014.

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

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

## 21) EQUITY

### a) Capital

According to its Articles of Incorporation, the Company is authorized to increase its share capital up to 1,850,000,000 shares. The Board of Directors is the competent body to decide on any increase and consequent issue of new shares within the authorized capital limit.

Nevertheless, Brazil's Corporation Law (Law no. 6,404/76, Article 166, item IV) establishes that capital may be increased by means of a Special Shareholders' Meeting resolution to decide about amendments to the Articles of Incorporation, if the authorized capital limit has been reached.

Capital increases do not necessarily require the proportion between the number of shares of each class to be maintained, however the number of non-voting or restricted-voting preferred shares must not exceed 2/3 of total shares issued.

Preferred shares are non-voting, except for cases set forth in Articles 9 and 10 of the Articles of Incorporation, but have priority in the event of reimbursement of capital, without premium, and are entitled to dividends 10% higher than those paid on common shares, as per article 7 of the Company's Articles of Incorporation and item II, paragraph 1, article 17 of Law No. 6,404/76.

Preferred shares also acquire full voting rights if the Company fails to pay the minimum dividend to which they are entitled for three consecutive financial years and this right will continue until payment of said dividend.

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



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

Three and six-month period ended June 30, 2017

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

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

Book value per share (not including outstanding shares):

At 06/30/17 (in R\$)

At 12/31/16 (in R\$)

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

The Company's shares held in treasury are the result of: (i) the acquisition and merger of GVTPart shares, in which the Company's common and preferred shareholders expressed their dissent regarding the acquisition of GVTPart; (ii) the acquisition in the market of 45 preferred shares under the share buyback program of the Company (note 21.f); and (iii) the transfer of 440 preferred shares held in treasury in compliance with decisions of lawsuits related to rights to receive complementary actions calculated in relation to network expansion plans after 1996 (see note 17.c).

The table below shows the changes for the six-month period ended June 30, 2017.

	Common shares	Shares Preferred shares	Total	In thousands of reais
<b>At 12.31.16</b>	<b>2,290,164</b>	<b>339</b>	<b>2,290,503</b>	<b>(87,790)</b>
Acquisition of shares in the financial market (1)	-	45	45	2
Transfer of lawsuits concerning judicial proceedings (2)	-	(45)	(45)	(2)
<b>At 06.30.17</b>	<b>2,290,164</b>	<b>339</b>	<b>2,290,503</b>	<b>(87,790)</b>

1) On June 1, 2017, the Company acquired 45 preferred shares issued by the Company at a price of R\$47.31, totaling R\$2.

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

b.2) Other capital reserves

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

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

Excess of the value in the issue or capitalization, in relation to the basic value of the share on the issue date (1)	2,799,004
Cancellation of treasury shares according to the Special Shareholders' Meeting (SGM) of 3/12/15 (2)	(112,107)
Direct costs of capital increases (3)	(62,433)
Incorporation of shares of GVTPart. (4)	(1,188,707)
Reclassification premium in the acquisition of equity interest in TData (5)	(75,388)
Transfer of lawsuits concerning judicial proceedings (6)	2
<b>Total</b>	<b>1,360,371</b>

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

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

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

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

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

(6) Refers to the transfer of 395 preferred shares in treasury to outstanding shares, equivalent to the amount of R\$15, related to compliance with judicial process decisions in which the Company is involved, regarding rights to the complementary receipt of shares calculated in relation to network expansion plans after 1996, occurred in December 2016 (Note 17.c).

### **c) Revenue reserves**

#### **c.1) Legal reserve**

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

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

#### **c.2) Special Reserve for Expansion and Modernization**

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

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

#### **c.3) Tax Incentives Reserve**

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

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

The balance of this caption at June 30, 2017 and December 31, 2016 was R\$22,427 and R\$17,069, respectively.

---



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

**d) Dividends and interest on equity**

d.1) Additional dividends proposed for 2016

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

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

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

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

Dates	Gross Amount	Net Value	Amount per
-------	--------------	-----------	------------

Approval	Credit	Beginning of Payment	Common	Preferred (2)	Total Common	Preferred (2)	Total Common	Preferred (2)	Total Common	Pr
02-13-17	02-24-17	Until 12/31/18	56,916	123,084	180,000	48,379	104,621	153,000	0.084970	
03-20-17	03-31-17	Until 12/31/18	110,669	239,331	350,000	94,069	203,431	297,500	0.165220	
06-19-17	06-30-17	Until 12/31/18	30,039	64,961	95,000	25,533	55,217	80,750	0.044845	
	<b>Total</b>		<b>197,624</b>	<b>427,376</b>	<b>625,000</b>	<b>167,980</b>	<b>363,270</b>	<b>531,250</b>		

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

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

#### d.3) Unclaimed dividends and interest on equity

Pursuant to article 287, paragraph II, item "a" of Law No. 6,404, of December 15, 1976, the dividends and interest on equity unclaimed by shareholders expire in 3 (three) years, as from the initial payment date. The Company reverses the amount of unclaimed dividends and IOE to equity upon expiry.

In the six-month period ended June 30, 2017, the Company reversed expired dividends in the amount of R\$72,840.

#### e) Other comprehensive income

Financial instruments available for sale: These refer to changes in fair value of financial assets available for sale.

Derivative financial instruments: These refer to the effective part of cash flow hedges up to the balance sheet date.

Currency translation effects for foreign investments: This refers to currency translation differences arising from the translation of financial statements of Aliança (jointly-controlled entity).

Changes in other comprehensive income are as follows:

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

	Financial instruments available for sale	Consolidated Derivative transactions	Currency translation effects - foreign investments	Total
<b>Balances at 12/31/15</b>	<b>(8,936)</b>	<b>379</b>	<b>34,025</b>	<b>25,468</b>
Exchange variation	-	-	(14,522)	(14,522)
Losses from future contracts	-	(11,403)	-	(11,403)
Losses on financial assets available for sale	(114)	-	-	(114)
<b>Balances at 06/30/16</b>	<b>(9,050)</b>	<b>(11,024)</b>	<b>19,503</b>	<b>(571)</b>
Exchange variation	-	-	(2,710)	(2,710)
Gains from future contracts	-	11,445	-	11,445
Reclassification of gains cash flow hedge for capex	-	3,128	-	3,128
Gains on financial assets available for sale	169	-	-	169
<b>Balances at 12/31/16</b>	<b>(8,881)</b>	<b>3,549</b>	<b>16,793</b>	<b>11,461</b>
Exchange variation	-	-	7,130	7,130
Gains from future contracts	-	2,619	-	2,619
Gains on financial assets available for sale	220	-	-	220
<b>Balances at 06/30/17</b>	<b>(8,661)</b>	<b>6,168</b>	<b>23,923</b>	<b>21,430</b>

**f) Company Share Repurchase Program**

In a meeting held on June 9, 2017, the Company's Board of Directors, in accordance with article 17, item XV, of the Articles of Incorporation, approved the repurchase of common and preferred shares issued by the Company, under CVM Ruling No. 567, of September 17, 2015, for acquisition of common and preferred shares issued by the Company for subsequent cancellation, disposal or to be held in treasury, without decreasing capital, to increase shareholder value through the efficient application of available cash resources and optimize the Company's capital allocation.

The repurchase shall be made through the use of the capital reserve balance included in the balance sheet as of March 31, 2017, excluding the reserves referred to in article 7, paragraph 1, of CVM Instruction 567, of September 17, 2015.

This program is effective until December 8, 2018, with the acquisitions made at B3, at market prices, observing the legal and regulatory limits, being the maximum amounts to be acquired of 870,781 common shares and 41,510,761 preferred shares.

#### **g) Earnings per share**

Basic and diluted earnings per share were calculated by dividing profit attributed to the Company's shareholders by the weighted average number of outstanding common and preferred shares for the period.

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

	Company			
	Three-month periods ended		Six-month periods ended	
	06.30.17	06.30.16	06.30.17	06.30.16
Net income for the year attributable to shareholders:				
Common shares	872,922	699,496	1,869,119	1,917,726
Preferred shares	276,016	221,179	591,011	606,380
	596,906	478,317	1,278,108	1,311,346
Number of shares:				
Weighted average number of outstanding common shares for the year	1,688,694	1,688,694	1,688,694	1,688,694
Weighted average number of outstanding preferred shares for the year	569,354	569,354	569,354	569,354
	1,119,340	1,119,340	1,119,340	1,119,340

Basic and diluted earnings per  
share:

Common shares (R\$)	0.48	0.39	1.04	1.07
Preferred shares (R\$)	0.53	0.43	1.14	1.17

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****22) NET OPERATING REVENUE**

	Company			
	Three-month periods ended		Six-month periods ended	
	06.30.17	06.30.16	06.30.17	06.30.16
<b>Gross operating revenue (1)</b>	<b>15,825,170</b>	<b>15,373,234</b>	<b>31,804,312</b>	<b>28,046,982</b>
<b>Deductions from gross operating revenue</b>	<b>(5,770,590)</b>	<b>(5,460,593)</b>	<b>(11,670,086)</b>	<b>(9,776,228)</b>
Taxes	(4,081,692)	(3,757,148)	(8,200,912)	(7,020,817)
Discounts granted and return of goods	(1,688,898)	(1,703,445)	(3,469,174)	(2,755,411)
<b>Net operating revenue</b>	<b>10,054,580</b>	<b>9,912,641</b>	<b>20,134,226</b>	<b>18,270,754</b>

	Consolidated			
	Three-month periods ended		Six-month periods ended	
	06.30.17	06.30.16	06.30.17	06.30.16
<b>Gross operating revenue (1)</b>	<b>16,553,192</b>	<b>16,036,408</b>	<b>33,123,586</b>	<b>32,035,053</b>
<b>Deductions from gross operating revenue</b>	<b>(5,855,999)</b>	<b>(5,526,359)</b>	<b>(11,836,243)</b>	<b>(11,093,608)</b>
Taxes	(4,164,490)	(3,822,976)	(8,362,465)	(7,659,855)
Discounts granted and return of goods	(1,691,509)	(1,703,383)	(3,473,778)	(3,433,753)

<b>Net operating revenue</b>	<b>10,697,193</b>	<b>10,510,049</b>	<b>21,287,343</b>	<b>20,941,445</b>
------------------------------	-------------------	-------------------	-------------------	-------------------

(1) These include telephone services, use of interconnection network, data and SVA services, cable TV and other services. For the quarters ended June 30, 2017 and 2016 respectively, the amounts relating to infrastructure-related swap contracts, for which the Company acts as an agent under IAS 18, totaled R\$221,931 and R\$163,854, respectively (Note 23).

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

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

### 23) OPERATING COSTS AND EXPENSES

	Company Three-month periods ended							
	06.30.17			06.30.16				
	Cost of sales and services	Selling expenses	General and administrative expenses	Total	Cost of sales and services	Selling expenses	General and administrative expenses	
Personnel	(199,973)	(587,295)	(116,002)	(903,270)	(260,587)	(535,083)	(194,371)	(99)
Third-party services	(1,223,975)	(1,635,336)	(307,585)	(3,166,896)	(1,234,947)	(1,528,849)	(282,430)	(3,04)
Interconnection and network use	(324,670)	-	-	(324,670)	(446,048)	-	-	(44)
Advertising and publicity	-	(250,792)	-	(250,792)	-	(290,610)	-	(29)
Rental, insurance, condominium and connection means (1)	(671,847)	(40,504)	(41,038)	(753,389)	(582,074)	(29,020)	(54,765)	(66)
Taxes, charges and contributions	(442,892)	(9,900)	(6,855)	(459,647)	(474,483)	(1,556)	(17,924)	(49)
Estimated impairment losses on accounts receivable (Note 4)	-	(355,552)	-	(355,552)	-	(300,963)	-	(30)



Depreciation and amortization (2)	(1,479,166)	(359,316)	(112,492)	(1,950,974)	(1,475,397)	(360,586)	(111,161)	(1,94
Cost of goods sold	(428,747)	-	-	(428,747)	(505,068)	-	-	(50
Materials and other operating costs and expenses	(25,045)	(49,510)	(4,275)	(78,830)	(28,546)	(46,149)	(19,577)	(9
<b>Total</b>	<b>(4,796,315)</b>	<b>(3,288,205)</b>	<b>(588,247)</b>	<b>(8,672,767)</b>	<b>(5,007,150)</b>	<b>(3,092,816)</b>	<b>(680,228)</b>	<b>(8,78</b>

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

	06.30.17			Company Six-month periods ended		06.30.16		
	Cost of sales and services	Selling expenses	General and administrative expenses	Total	Cost of sales and services	Selling expenses	General and administrative expenses	
Personnel	(396,248)	(1,160,710)	(244,953)	(1,801,911)	(395,002)	(958,434)	(305,903)	
Third-party services	(2,420,320)	(3,243,655)	(612,882)	(6,276,857)	(2,210,812)	(2,938,365)	(564,918)	
Interconnection and network use	(717,648)	-	-	(717,648)	(976,514)	-	-	
Advertising and publicity	-	(457,962)	-	(457,962)	-	(459,554)	-	
Rental, insurance, condominium and connection means (1)	(1,292,134)	(76,373)	(90,635)	(1,459,142)	(1,053,846)	(69,413)	(92,140)	
Taxes, charges and contributions	(886,556)	(20,908)	(20,673)	(928,137)	(892,887)	(2,691)	(31,731)	
Estimated impairment losses on accounts receivable (Note 4)	-	(682,800)	-	(682,800)	-	(577,628)	-	
Depreciation and amortization (2)	(2,942,207)	(720,221)	(224,678)	(3,887,106)	(2,596,780)	(588,970)	(203,842)	

Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

Cost of goods sold	(875,593)	-	-	(875,593)	(999,666)	-	-
Materials and other operating costs and expenses	(45,007)	(81,564)	(10,656)	(137,227)	(38,894)	(80,121)	(20,345)
<b>Total</b>	<b>(9,575,713)</b>	<b>(6,444,193)</b>	<b>(1,204,477)</b>	<b>(17,224,383)</b>	<b>(9,164,401)</b>	<b>(5,675,176)</b>	<b>(1,218,879)</b>

Consolidated  
Three-month periods ended

	06.30.17				06.30.16			
	Cost of sales and services	Selling expenses	General and administrative expenses	Total	Cost of sales and services	Selling expenses	General and administrative expenses	
Personnel	(207,491)	(589,581)	(118,993)	(916,065)	(271,761)	(542,089)	(198,312)	
Third-party services	(1,388,172)	(1,633,407)	(312,104)	(3,333,683)	(1,464,710)	(1,517,469)	(294,542)	
Interconnection and network use	(324,670)	-	-	(324,670)	(451,247)	-	-	
Advertising and publicity	-	(250,792)	-	(250,792)	-	(290,610)	-	
Rental, insurance, condominium and connection means (1)	(673,449)	(40,894)	(41,086)	(755,429)	(584,769)	(29,243)	(54,970)	
Taxes, charges and contributions	(449,540)	(9,900)	(6,904)	(466,344)	(478,897)	(1,556)	(20,386)	
Estimated impairment losses on accounts receivable (Note 4)	-	(370,782)	-	(370,782)	-	(317,043)	-	
Depreciation and amortization (2)	(1,484,414)	(359,325)	(113,485)	(1,957,224)	(1,481,798)	(360,597)	(110,956)	
Cost of goods sold	(464,679)	-	-	(464,679)	(533,602)	-	-	
Materials and other operating costs and expenses	(25,983)	(51,030)	(4,384)	(81,397)	(33,477)	(46,529)	(20,201)	
<b>Total</b>	<b>(5,018,398)</b>	<b>(3,305,711)</b>	<b>(596,956)</b>	<b>(8,921,065)</b>	<b>(5,300,261)</b>	<b>(3,105,136)</b>	<b>(699,367)</b>	

	Consolidated Six-month periods ended						
	06.30.17			06.30.16			
	Cost of sales and services	Selling expenses	General and administrative expenses	Total	Cost of sales and services	Selling expenses	General and administrative expenses
Personnel	(411,556)	(1,165,415)	(251,008)	(1,827,979)	(554,031)	(1,043,661)	(334,935)
Third-party services	(2,803,913)	(3,232,568)	(608,863)	(6,645,344)	(2,920,646)	(3,019,056)	(616,417)
Interconnection and network use	(717,648)	-	-	(717,648)	(1,007,628)	-	-
Advertising and publicity	-	(457,962)	-	(457,962)	-	(511,316)	-
Rental, insurance, condominium and connection means (1)	(1,297,143)	(77,003)	(90,740)	(1,464,886)	(1,155,610)	(78,883)	(92,911)
Taxes, charges and contributions	(906,993)	(20,908)	(21,657)	(949,558)	(934,111)	(3,924)	(36,379)
Estimated impairment losses on accounts receivable (Note 4)	-	(728,525)	-	(728,525)	-	(661,433)	-
Depreciation and amortization (2)	(2,954,804)	(720,240)	(225,790)	(3,900,834)	(2,977,826)	(685,000)	(203,780)
Cost of goods sold	(937,426)	-	-	(937,426)	(1,051,568)	-	-
Materials and other operating costs and expenses	(47,346)	(85,228)	(10,899)	(143,473)	(55,483)	(87,392)	(30,032)
<b>Total</b>	<b>(10,076,829)</b>	<b>(6,487,849)</b>	<b>(1,208,957)</b>	<b>(17,773,635)</b>	<b>(10,656,903)</b>	<b>(6,090,665)</b>	<b>(1,314,454)</b>

(1) The amounts relating to infrastructure-related swap contracts, under the concept of agent under CPC 30/IAS 18, which were not recognized as costs and revenues in the six-month ended June 30, 2017 and 2016 respectively, totaled R\$221,931 and R\$163,854, respectively (Note 22).

(2) Includes R\$1,266 and R\$5,774, related to non-cumulative PIS and COFINS tax credits in the six-month ended June 30, 2017 and 2016, respectively.



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****24) OTHER OPERATING INCOME (EXPENSES), NET**

	Company			
	Three-month periods ended		Six-month periods ended	
	06.30.17	06.30.16	06.30.17	06.30.16
Recovered expenses and fines	65,366	110,861	179,557	239,266
Provisions for labor, tax, civil, regulatory and contingent liabilities (Note 17)	(191,429)	(249,125)	(448,505)	(485,493)
Net gain (loss) on asset disposal/loss (1)	(16,388)	(14,289)	(16,937)	465,647
Other operating income (expenses) (2)	(52,111)	(5,964)	(89,298)	18,367
<b>Total</b>	<b>(194,562)</b>	<b>(158,517)</b>	<b>(375,183)</b>	<b>237,787</b>
Other operating income	65,366	89,265	179,557	721,937
Other operating expenses	(259,928)	(247,782)	(554,740)	(484,150)
<b>Total</b>	<b>(194,562)</b>	<b>(158,517)</b>	<b>(375,183)</b>	<b>237,787</b>

	Consolidated			
	Three-month periods ended		Six-month periods ended	
	06.30.17	06.30.16	06.30.17	06.30.16
Recovered expenses and fines	66,497	111,190	182,122	259,853
Provisions for labor, tax, civil, regulatory and PPA (Note 17)	(201,888)	(250,090)	(460,494)	(513,292)
Net gain (loss) on asset disposal/loss (1)	(13,839)	(13,831)	(19,590)	471,271
	(55,704)	(5,544)	(74,270)	24,988

Other operating income (expenses) (2)				
<b>Total</b>	<b>(204,934)</b>	<b>(158,275)</b>	<b>(372,232)</b>	<b>242,820</b>
Other operating income	66,497	90,473	182,122	754,770
Other operating expenses	(271,431)	(248,748)	(554,354)	(511,950)
<b>Total</b>	<b>(204,934)</b>	<b>(158,275)</b>	<b>(372,232)</b>	<b>242,820</b>

(1) The amount shown for 2016 includes R\$476,371 (net of residual values) from the Company's sale of 1,655 transmission towers to Telxius Torres Brasil (company of the Telefónica Group, Note 27). After the sale of these assets, a lease agreement for part of the towers sold was entered into, thus ensuring continued transmission of data for mobile services.

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

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

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

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****25) FINANCIAL INCOME (EXPENSES)**

	Company			
	Three-month periods ended 06.30.17	06.30.16	Six-month periods ended 06.30.17	06.30.16
<b>Financial Income</b>				
Interest income	158,790	143,255	331,065	257,414
Interest receivable (customers, taxes and other)	34,488	17,648	71,361	35,007
Gain on derivative transactions (Note 30)	114,567	273,505	209,009	618,697
Foreign exchange variations on loans and financing (Note 19)	247	203,383	62,924	403,915
Other revenues from foreign exchange and monetary variation	108,215	60,739	226,974	124,020
Other financial income	35,136	579	75,734	7,657
<b>Total</b>	<b>451,443</b>	<b>699,109</b>	<b>977,067</b>	<b>1,446,710</b>
<b>Financial Expenses</b>				
Loan, financing, debenture, finance lease charges and contingent consideration (Note 19)	(240,650)	(253,956)	(534,701)	(507,405)
Foreign exchange variation on loans and financing (Note 19)	(57,525)	(54,619)	(79,978)	(114,906)
Loss on derivative transactions (Note 30)	(102,544)	(468,319)	(246,241)	(921,442)
Interest payable (financial institutions, provisions, trade accounts payable, taxes and other)	(40,350)	(54,951)	(76,036)	(164,214)
	(252,264)	(152,880)	(536,731)	(296,546)



Other expenses with foreign exchange and monetary variation IOF, Pis, Cofins and other financial expenses	(38,833)	(42,643)	(97,733)	(66,903)
<b>Total</b>	<b>(732,166)</b>	<b>(1,027,368)</b>	<b>(1,571,420)</b>	<b>(2,071,416)</b>

	Consolidated			
	Three-month periods ended 06.30.17	06.30.16	Six-month periods ended 06.30.17	06.30.16
<b>Financial Income</b>				
Interest income	179,961	157,745	370,154	297,630
Interest receivable (customers, taxes and other)	34,694	18,711	72,040	57,099
Gain on derivative transactions (Note 30)	114,567	273,505	209,009	618,697
Foreign exchange variations on loans and financing (Note 19)	247	203,383	62,924	403,915
Other revenues from foreign exchange and monetary variation	109,521	63,193	231,336	122,463
Other financial income	42,008	5,896	89,449	20,829
<b>Total</b>	<b>480,998</b>	<b>722,433</b>	<b>1,034,912</b>	<b>1,520,633</b>
<b>Financial Expenses</b>				
Loan, financing, debenture, finance lease charges and indemnification liability (Note 19)	(240,650)	(253,955)	(534,701)	(547,898)
Foreign exchange variation on loans and financing (Note 19)	(57,525)	(54,619)	(79,978)	(114,906)
Loss on derivative transactions (Note 30)	(102,544)	(468,319)	(246,241)	(921,442)
Interest payable (financial institutions, provisions, trade accounts payable, taxes and other)	(40,844)	(54,877)	(77,417)	(169,690)
Other expenses with foreign exchange and monetary variation	(263,760)	(152,649)	(551,263)	(294,854)
IOF, Pis, Cofins and other financial expenses	(39,961)	(44,073)	(99,970)	(94,695)
<b>Total</b>	<b>(745,284)</b>	<b>(1,028,492)</b>	<b>(1,589,570)</b>	<b>(2,143,485)</b>

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)****26) INCOME TAX AND SOCIAL CONTRIBUTION**

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

Reconciliation of the reported tax expense and the amounts calculated by applying the statutory tax rate of 34% (income tax of 25% and social contribution of 9%).

	Company			
	Three-month periods ended		Six-month periods ended	
	06.30.17	06.30.16	06.30.17	06.30.16
Income before taxes	1,169,454	840,040	2,365,091	2,275,759
Income and social contribution tax expenses, at the tax rate of 34%	(397,614)	(285,614)	(804,131)	(773,758)
<u>Permanent and temporary differences</u>				
Equity pickup, net of effects from interest on equity received and surplus value of the assets purchased attributed to the Company (Note 10)	89,395	43,087	144,427	153,129
Unclaimed interest on equity	-	-	(10,319)	-
Diferenças temporárias de subsidiárias	-	-	-	-
Non-deductible expenses, gifts, incentives	(19,362)	(29,111)	(38,234)	(59,682)
	32,300	129,540	212,500	312,120

Tax benefit related to interest on equity allocated				
Other (additions) exclusions	(1,251)	1,554	(215)	10,158
<b>Tax debits</b>	<b>(296,532)</b>	<b>(140,544)</b>	<b>(495,972)</b>	<b>(358,033)</b>
Effective rate	25.4%	16.7%	21.0%	15.7%
Current income and social contribution taxes	38,428	6,149	(2,163)	(260,057)
Deferred income and social contribution taxes	(334,960)	(146,693)	(493,809)	(97,976)

	Consolidated			
	Three-month periods ended		Six-month periods ended	
	06.30.17	06.30.16	06.30.17	06.30.16
Income before taxes	1,307,452	941,427	2,588,167	2,500,115
Income and social contribution tax expenses, at the tax rate of 34%	(444,534)	(320,085)	(879,977)	(850,039)
<u>Permanent and temporary differences</u>				
Equity pickup, net of effects from interest on equity received and surplus value of the assets purchased attributed to the Company (Note 10)	185	163	459	247
Unclaimed interest on equity	-	-	(10,319)	-
Diferenças temporárias de subsidiárias	-	-	-	-
Non-deductible expenses, gifts, incentives	(19,892)	(29,370)	(40,168)	(61,555)
Tax benefit related to interest on equity allocated	32,300	129,540	212,500	312,120
Other (additions) exclusions	(2,589)	(22,179)	(1,543)	16,838
<b>Tax debits</b>	<b>(434,530)</b>	<b>(241,931)</b>	<b>(719,048)</b>	<b>(582,389)</b>
Effective rate	33.2%	25.7%	27.8%	23.3%
Current income and social contribution taxes	(100,781)	(61,359)	(243,696)	(474,455)
Deferred income and social contribution taxes	(333,749)	(180,572)	(475,352)	(107,934)

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

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

**27) BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

Balances and transactions with related parties

The main balances of assets and liabilities with related parties arise from transactions with companies related to the controlling group carried out at the prices and other commercial conditions agreed in contracts between the parties as follows:

- a) Fixed and mobile telephony services provided by Telefônica Group companies;
- b) Digital TV services provided by Media Networks Latino America;
- c) Lease and maintenance of safety equipment provided by Telefônica Inteligência e Segurança Brasil;
- d) Corporate services passed through at the cost effectively incurred for these services;
- e) Systems development and maintenance services provided by Telefônica Global Technology;

- f) International transmission infrastructure for several data circuits and roaming services provided by Telxius Cable Brasil (former Telefónica International Wholesale Brasil), Telefónica International Wholesale Services Espanha, Telefónica USA; and Media Net Br;
  
- g) Digital media; marketing and sales, in-store and outdoor digital marketing services provided by Telefônica On The Spot Soluções Digitais Brasil;
  
- h) Tower operations between the Company and Telxius Torres Brasil (sale and leaseback operation, Note 24);
  
- i) Content-related services provided by Terra Networks Brasil;
  
- j) Data communication services and integrated solutions provided by Telefónica International Wholesale Services Espanha and Telefónica USA
  
- k) Long distance call and international roaming services provided by companies of Telefónica Group;
  
- l) Sundry expenses and costs to be reimbursed by companies of Telefónica Group;
  
- m) Brand Fee for assignment of rights to use the brand paid to Telefónica;
  
- n) Stock option plan for employees of the Company and its subsidiaries related to acquisition of Telefónica shares;
  
- o) Cost Sharing Agreement (CSA) for digital-business related expenses reimbursed to Telefónica Latino América Holding S.L. (former Telefónica Internacional) and Telefónica Digital;
  
- p) Leases/rentals of Telefónica Group companies' buildings;

- q) Financial Clearing House roaming, inflows of funds for payments and receipts arising from roaming operation between group companies operated by Telfisa;
  
  - r) Integrated e-learning, online education and training solutions provided by T.learning Services Brasil;
  
  - s) Factoring transactions, credit facilities for services provided by the Group's suppliers;
  
  - t) Social investment in Fundação Telefônica, innovative use of technology to enhance learning and knowledge, contributing to personal and social development;
-

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

u) Contracts or agreements assigning user rights for cable ducts, optical fiber duct rental services, and right-of-way related occupancy agreements with several highway concessionaires provided by Companhia AIX; and

v) Adquira Sourcing platform - online solution provided by Telefônica Compras Eletrônicas to transact purchase and sale of all types of goods and services.

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

The following table summarizes the consolidated balances with related parties:

	Type of transaction	Balance Sheet - Assets						
		At 06/30/17			At 12/31/16			
		Cash and equivalents	Current assets Accounts receivable, net	Other assets	Non-current assets Other assets	Cash and equivalents	Current assets Accounts receivable, net	
<b><u>Companies</u></b>								
<b><u>Parent Companies</u></b>								
SP								
Telecomunicações Participações	d) / l)	-	21	5,065	17	-	-	94
	d) / l)	-	-	115,660	-	-	-	-

Telefónica LatinoAmerica Holding							
Telefónica	l)	-	-	559	-	-	-
		-	21	121,284	17	-	94 2
<b><u>Other Group companies</u></b>							
Telefônica Learning Services Brasil	a)	-	56	-	-	-	64
Companhia AIX de Participações	a)	-	26	-	-	-	37
Telefônica On The Spot Soluções Digitais Brasil	a) / d)	-	482	29	-	-	370
Media Networks Brasil Soluções Digitais	a) / d)	-	611	19	40	-	81
Telefônica Factoring do Brasil	a) / d)	-	3,907	6	12	-	4,927
Telxius Cable Brasil	a) / d) / k) / l) / p)	-	9,023	825	76	-	11,513
Telefônica Inteligência e Segurança Brasil	a) / d) / l)	-	329	595	350	-	868
Terra Networks Brasil	a) / d) / l)	-	3,377	3,733	46	-	5,499
Telefônica Serviços Empresariais do Brasil	a) / d) / l) / p)	-	2,844	27	2,339	-	2,518
Telxius Torres Brasil	d) / p) / h)	-	12,562	5,523	-	-	13,842
Telefônica USA	j)	-	5,488	-	-	-	3,550
Telefônica International Wholesale Services Espanha	j) / k)	-	74,135	-	-	-	82,613
Telefônica Mviles Del Espanha	k)	-	8,687	-	-	-	9,220
Colombia Telecomunicaciones ESP	k)	-	2,879	4,284	-	-	2,641
Telefônica Mviles Argentina	k)	-	3,096	-	-	-	6,288
Telefônica Mviles Del Chile	k)	-	8,936	370	-	-	10,207
Pegaso PCS	k)	-	7,030	-	-	-	6,163
Telefônica Mviles Del Uruguay	k)	-	979	-	-	-	761
Telefonica UK LTD.(O2 UK LTD)	k)	-	8,563	-	-	-	8,809
T.O2 Germany GMBH CO. OHG	k)	-	15,438	-	-	-	9,849
	k)	-	5,992	-	-	-	6,180



Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

Telcel Telecom. Celulares C. A. Telefónica Moviles Panama	k)	-	297	-	-	-	1,260
Telefónica Global Technology	l)	-	-	16,837	-	-	1,614
Telfisa	q)	16,853	-	-	-	78,070	-
Other	a) / d) / k) / l) / p)	-	2,074	766	215	-	1,938
<b>Total</b>		<b>16,853</b>	<b>176,811</b>	<b>33,014</b>	<b>3,078</b>	<b>78,070</b>	<b>190,812</b>
		<b>16,853</b>	<b>176,832</b>	<b>154,298</b>	<b>3,095</b>	<b>78,070</b>	<b>190,906</b>

---



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

	Type of transaction	Balance Sheet - Liabilities				
		At 06/30/17		At 12//31/16		
		Current liabilities	Non-current liabilities	Current liabilities	Non-current liabilities	Other liabilities
		Trade accounts payable and other payables	Other liabilities	Trade accounts payable and other payables	Other liabilities	Other liabilities
<b>Companies</b>						
<b>Parent Companies</b>						
SP Telecomunicações Participações	l)	-	533	-	-	533
Telefónica LatinoAmerica Holding	l)	82	-	-	109	-
Telefónica	l) / m) / n)	1,383	258	-	2,236	84,759
		<b>1,465</b>	<b>791</b>	<b>-</b>	<b>2,345</b>	<b>85,292</b>
<b>Other Group companies</b>						
Media Networks Latina America SAC	b)	27,576	-	-	32,398	-
Telefónica Inteligência e Segurança Brasil	c)	16,425	19	8	26,516	19
Telxius Torres Brasil	d) / h)	33,071	4,445	-	33,178	15,991
Telxius Cable Brasil	d) / f) / l)	45,672	1,690	378	52,210	1,690
Telefónica Global Technology	e)	14,588	-	-	15,169	-
Telefónica USA	f)	22,306	-	171	14,283	-
Media Networks Brasil Soluções Digitais	f)	24,274	-	318	11,821	-
Telefónica International Wholesale Services Espanha	f) / k)	23,484	8	-	50,121	8
Telefónica Serviços Empresariais do Brasil	l)	-	51	531	112	803
Terra Networks Brasil	i)	6,480	440	769	3,360	440
Telefónica Mviles Del Espanha	k)	3,457	-	-	4,671	-
Colombia Telecomunicaciones S.A. ESP	k)	1,270	-	-	2,675	-
Telefónica Mviles Argentina	k)	4,113	-	-	13,997	-
Telefónica Mviles Del Chile	k)	9,128	-	-	10,673	-
Pegaso PCS	k)	730	-	-	2,452	-
Telefónica Mviles Del Uruguay	k)	1,091	-	-	2,059	-

Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

Telefonica UK LTD.(O2 UK LTD)	k)	3,599	-	-	3,868	-
T.O2 Germany GMBH CO. OHG	k)	5,715	-	-	4,409	-
Telcel Telecom. Celulares C. A.	k)	5,558	-	-	4,721	-
Telefónica Mviles Panama	k)	168	-	-	737	-
Telefonica Global Roaming	k)	883	-	-	1,009	-
Telefónica Digital España	o)	40,792	-	-	35,347	-
Telefônica Learning Services Brasil	r)	15,846	-	-	16,328	-
Telefônica Factoring do Brasil	s)	267	232	-	-	6,154
Fundação Telefônica	t)	-	51	-	-	52
Companhia AIX de Participações	u)	1,915	-	-	1,835	-
Telefónica Compras Electrónicas	v)	23,798	-	-	24,196	-
Telefônica On The Spot Soluções Digitais Brasil	g)	2,799	-	-	2,950	-
Other	h) / k)	1,920	-	29	7,800	-
		<b>336,925</b>	<b>6,936</b>	<b>2,204</b>	<b>378,895</b>	<b>25,157</b>
<b>Total</b>		<b>338,390</b>	<b>7,727</b>	<b>2,204</b>	<b>381,240</b>	<b>110,449</b>

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

	Type of transaction	Income statement	
		06/30/17	06/30/16
<b><u>Companies</u></b>			
<b><u>Parent Companies</u></b>			
SP Telecomunicações Participações	d) / l)	134	27
Telefónica LatinoAmerica Holding	d) / l) / o)	27,732	50,361
Telefónica	l) / m) / n)	(168,012)	(155,102)
		<b>(140,146)</b>	<b>(104,714)</b>
<b><u>Other Group companies</u></b>			
Telefónica Global Technology, S.A.U.	e) / l)	(16,345)	(14,779)
Telefónica International Wholesale Services Espanha	f) / j) / k)	10,523	(9,066)
Telefónica Inteligência e Segurança Brasil	a) / c) / d) / l)	(11,567)	(16,772)
Media Networks Brasil Soluções Digitais	a) / d) / f)	(29,858)	(18)
Telxius Cable Brasil	a) / d) / f) / k) / l) / p)	(93,381)	(129,031)
Telefónica Serviços Empresariais do Brasil	a) / d) // l) / p)	(1,187)	1,031
Terra Networks Brasil	a) / d) / i) / l)	(8,234)	(7,708)
Fundação Telefônica	a) / d) / l) t)	(6,716)	(5,160)
Telefónica Factoring do Brasil	a) / d) / s)	793	105
Telefónica On The Spot Soluções Digitais Brasil	a) / d) / g)	(3,171)	(1,286)
T. Learning Services Brasil	a) / r)	(24,137)	(21,419)
Companhia AIX de Participações	a) / u)	(9,307)	(10,288)
Media Networks Latina America SAC	b)	(15,496)	623
Telxius Torres Brasil	d) / p) / h)	(52,052)	(23,315)
Telefónica USA	f) / j)	(8,592)	(3,931)
Telefónica Mviles Del Espanha	k)	88	(2,223)
Telefónica Mviles Argentina	k)	6,045	(1,975)
Telefónica Mviles Del Chile	k)	414	87
Pegaso PCS	k)	1,215	(3,877)
Telefonica Global Roaming	k)	(1,668)	(2,005)
Telefónica Mviles Del Uruguay	k)	1,613	(1,104)

Telefonica UK LTD.(O2 UK LTD)	k)	265	(1,041)
T.O2 Germany GMBH CO. OHG	k)	927	(5,305)
Telcel Telecom. Celulares C. A.	k)	(996)	(4,976)
Telefónica Mviles Panama	k)	55	(641)
Colombia Telecomunicaciones S.A. ESP	k)	1,347	(2,421)
Telefónica Digital España	l) / o)	(37,880)	(15,535)
Telefónica Compras Electrónicas	v)	(11,828)	(31,323)
Other	a) / d) / k) / l) / p)	(297)	(845)
<b>Total</b>		<b>(309,427)</b>	<b>(314,198)</b>
		<b>(449,573)</b>	<b>(418,912)</b>

### Management compensation

Consolidated key management personnel compensation paid by the Company to its Board of Directors and Statutory Officers were R\$10,617 and R\$32,826 for the quarters ended June 30, 2017 and 2016 respectively. Of this amount, R\$6,774 (R\$13,978 on June 30, 2016) corresponds to salaries, benefits and social charges and R\$3,843 (R\$18,848 on June 30, 2016) to variable compensation.

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

For the quarters ended June 30, 2017 and 2016, our Directors and Officers did not receive any pension, retirement or similar benefits.

## **28) SHARE-BASED PAYMENT PLANS**

Telefónica, as the Company's parent company, has different share-based payment plans based on the share quotes, which were also offered to management and employees of its subsidiaries, including Telefônica Brasil and the latter's subsidiaries.

The fair value of these options is estimated on the grant date, based on a binomial pricing model reflecting terms and conditions of instruments granted.

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

The Company and its subsidiaries reimburse Telefônica for the amount of the fair value of the benefits granted to management and employees on the grant date.

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

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

At June 30, 2017, the share price of Telefônica shares was 9.0380 euros and the plans were positioned as follows:

Plans	Cycles	Number of shares (1)	Final Date
PIP	4th cycle - October 1, 2014	337,479	September 30, 2017
PIP	5th cycle - October 1, 2015	497,528	September 30, 2018
TFSP	1st cycle - October 1, 2014	55,500	September 30, 2017
TFSP	2nd cycle - October 1, 2015	86,000	September 30, 2018

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

The expenses of the Company and its subsidiaries with the compensation plans based on actions described above, where applicable, are recorded as personnel expenses, divided between Cost of Services, Selling and General and Administrative Expenses (Note 23), corresponding to R\$8,057 and R\$7,639 for the quarters ended June 30, 2017 and 2016 respectively.

## 29) PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The plans sponsored by the Company and related benefit types are as follows:

Plan	Type	Entity	Sponsor
PBS-A	Defined benefit (DB)	Sistel	Telefônica Brasil, jointly with other telecoms resulting from privatization of the Sistema Telebrás
PAMA / PCE	Defined benefit (DB)	Sistel	Telefônica Brasil, jointly with other telecoms resulting from privatization of the Sistema Telebrás
Healthcare - Law No. 9656/98	Defined benefit (DB)	Telefônica Brasil	Telefônica Brasil
CTB	Defined benefit (DB)	Telefônica Brasil	Telefônica Brasil
Telefônica BD	Defined benefit (DB)	VisãoPrev	Telefônica Brasil
PREV	Hybrid	VisãoPrev	Telefônica Brasil
VISÃO	Defined contribution (DC) / Hybrid	VisãoPrev	Telefônica Brasil, TData and TGLog

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

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



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

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

---

(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and six-month period ended June 30, 2017****(In thousands of *Reais*, unless otherwise stated)**

	Plans with surplus	Consolidated Plans with deficit	Total
<b>Balances at 12/31/15</b>	<b>8,724</b>	<b>(85,343)</b>	<b>(76,619)</b>
Current service cost	(1,437)	(1,350)	(2,787)
Net interest on net defined benefit liabilities/assets	651	(4,782)	(4,131)
Contributions and benefits paid by the employers	1,452	11,010	12,462
<b>Balances at 06/30/16</b>	<b>9,390</b>	<b>(80,465)</b>	<b>(71,075)</b>
Current service cost	(1,437)	(1,348)	(2,785)
Net interest on net defined benefit liabilities/assets	651	(4,784)	(4,133)
Contributions and benefits paid by the employers	606	(4,475)	(3,869)
Effects on comprehensive income	(169)	(236,598)	(236,767)
<b>Balances at 12/31/16</b>	<b>9,041</b>	<b>(327,670)</b>	<b>(318,629)</b>
Current service cost	(1,533)	(3,475)	(5,008)
Net interest on net defined benefit liabilities/assets	568	(17,831)	(17,263)
Contributions and benefits paid by the employers	1,377	5,494	6,871
<b>Balances at 06/30/17</b>	<b>9,453</b>	<b>(343,482)</b>	<b>(334,029)</b>

Of the surplus amounts shown in the table above, the Company recognized consolidated amounts of R\$9,240 and R\$8,838 at June 30, 2017 and December 31, 2016, respectively (Note 9).

### 30) FINANCIAL INSTRUMENTS AND RISK AND CAPITAL MANAGEMENT

#### a) Derivative transactions

The derivative financial instruments contracted by the Company are mainly intended to hedge against foreign exchange risk arising from assets and liabilities in foreign currency, risk of inflation on its debentures and leases indexed to the IPCA and against the risk of changes in TJLP of a portion of debt with BNDES. There are no derivative financial instruments for speculative purposes and possible currency risks are hedged.

Management understands that the Company's internal controls for its derivatives are adequate to control risks associated with each strategy for the market. Gains/losses obtained or sustained by the Company in relation to its derivatives show that its risk management has been appropriate.

The Company calculates the effectiveness of the derivative contracts to hedge its financial liabilities and cash flows in foreign currency at the beginning of the operation and on an ongoing basis. At June 30, 2017 and December 31, 2016, the derivative instruments were effective for the hedged items.

As long as these derivatives contracts qualify for hedge accounting, the hedged item may also be adjusted to fair value, offsetting the result of the derivatives, according to the rules of hedge accounting. This hedge accounting applies both to financial liabilities and probable cash flows in foreign currency.

At June 30, 2017 and December 31, 2016, the Company held no embedded derivatives contracts.

Derivatives contracts include specific penalties for breach of contract. Breach of contract provided for in agreements made with financial institutions leads to the early maturity thereof.

#### a.1) Fair value of derivative financial instruments

The valuation method used to calculate the fair value of financial liabilities (if applicable) and derivative financial instruments was the discounted cash flow method, based on expected settlements or realization of liabilities and assets at market rates prevailing at the balance sheet date.

The fair values of positions in Reais are calculated by projecting future inflows from transactions using B3 yield curves discounting these flows to present value using market DI rates for swaps announced by B3.



(A free translation of the original in Portuguese)

**Telefônica Brasil S. A.**

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

**Three and six-month period ended June 30, 2017**

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

The market values of foreign-exchange derivatives were obtained using the market exchange rates in effect at the balance sheet date and projected market rates obtained from the currency's coupon-rate yield curves. The linear convention of 360 calendar days was used to determine coupon rates of positions indexed in foreign currencies, while the exponential convention of 252 business days was used to determine coupon rates for positions indexed to CDI rates.

Consolidated derivatives financial instruments shown below are registered with B3 and classified as swaps, usually, that do not require margin deposits.

	Company / Consolidated		Accumulated effects from fair value
Notional Value	Net position at fair value		