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

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

| | | | |
|---|---|---|---|
| Form 20-F | X | Form 40-F | |

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

| | | | |
|---|---|---|---|
| Yes | | No | X |

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

| | | |
|---|---|---|
| Yes | No | X |

(A free translation of the original in Portuguese)

**Telefônica Brasil S.A.**

**Quarterly Information (ITR)**

**at 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

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(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

| | | **Company** | | **Consolidated** | | | | **Company** | |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | **Note** | **06.30.17** | **12.31.16** | **06.30.17** | **12.31.16** | **LIABILITIES AND EQUITY** | **Note** | **06.30.17** | **1** |
| **Current assets** | | **20,323,772** | **17,482,265** | **21,251,020** | **18,398,995** | **Current liabilities** | | **22,096,507** | **20,** |
| 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, |
| **Non-current assets** | | **83,844,548** | **84,475,240** | **83,105,458** | **83,667,264** | | | | |
| Short-term investments pledged as collateral | | 82,002 | 78,153 | 82,024 | 78,166 | **Non-current liabilities** | | **13,414,453** | **12,** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 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, |
| **Investments** | 10 | **1,454,815** | **1,407,155** | **94,558** | **85,745** | Debentures | 19 | 2,133,423 | 1, |
| **Property, plant and equipment, net** | 11 | **31,731,198** | **31,837,549** | **31,811,114** | **31,924,918** | Derivative financial instruments | 30 | 2,152 | |
| **Intangible assets, net** | 12 | **43,569,304** | **44,270,120** | **43,782,592** | **44,483,496** | Other liabilities | 20 | 590,813 | |
| | | | | | | **Equity** | | **68,657,360** | **69,** |
| | | | | | | 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, |
| **TOTAL ASSETS** | | **104,168,320** | **101,957,505** | **104,356,478** | **102,066,259** | **TOTAL LIABILITIES AND EQUITY** | | **104,168,320** | **101,** |

(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 or

| | | **Company** | | | | **Consolidate** | | |
|---|---|---|---|---|---|---|---|---|
| | | **Three-month periods ended** | | **Six-month periods ended** | | **Three-month periods ended** | | **Six** |
| | **Note** | **06.30.17** | **06.30.16** | **06.30.17** | **06.30.16** | **06.30.17** | **06.30.16** | **06** |
| **Net operating revenue** | 22 | **10,054,580** | **9,912,641** | **20,134,226** | **18,270,754** | **10,697,193** | **10,510,049** | **21,2** |
| Cost of sales and services | 23 | (4,796,315) | (5,007,150) | (9,575,713) | (9,164,401) | (5,018,398) | (5,300,261) | (10,07 |
| **Gross profit** | | **5,258,265** | **4,905,491** | **10,558,513** | **9,106,353** | **5,678,795** | **5,209,788** | **11,2** |
| **Operating income (expenses)** | | **(4,071,014)** | **(3,931,561)** | **(8,023,853)** | **(6,656,268)** | **(4,107,601)** | **(3,962,778)** | **(8,06** |
| Selling expenses | 23 | (3,288,205) | (3,092,816) | (6,444,193) | (5,675,176) | (3,305,711) | (3,105,136) | (6,48 |
| General and administrative expenses | 23 | (588,247) | (680,228) | (1,204,477) | (1,218,879) | (596,956) | (699,367) | (1,20 |
| Other operating income | 24 | 65,366 | 89,265 | 179,557 | 721,937 | 66,497 | 90,473 | 1 |
| Other operating expenses | 24 | (259,928) | (247,782) | (554,740) | (484,150) | (271,431) | (248,748) | (55 |
| **Operating profit** | | **1,187,251** | **973,930** | **2,534,660** | **2,450,085** | **1,571,194** | **1,247,010** | **3,1** |
| Financial income | 25 | 451,443 | 699,109 | 977,067 | 1,446,710 | 480,998 | 722,433 | 1,0 |
| Financial expenses | 25 | (732,166) | (1,027,368) | (1,571,420) | (2,071,416) | (745,284) | (1,028,492) | (1,58 |
| Equity in results of investees | 10 | 262,926 | 194,369 | 424,784 | 450,380 | 544 | 476 | |
| **Income before taxes** | | **1,169,454** | **840,040** | **2,365,091** | **2,275,759** | **1,307,452** | **941,427** | **2,5** |
| Income tax and social contribution | 26 | (296,532) | (140,544) | (495,972) | (358,033) | (434,530) | (241,931) | (71 |
| **Net income for the period** | | **872,922** | **699,496** | **1,869,119** | **1,917,726** | **872,922** | **699,496** | **1,8** |
| 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)**

(A fr

| | | Capital reserves | | | Revenue reserves | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital | Premium on acquisition of interest | Other capital reserves | Treasury shares | Legal reserve | Tax incentive reserve | Expansion and modernization reserve | Retained earnings |
| **Balances at December 31, 2015** | **63,571,416** | **(75,388)** | **1,435,757** | **(87,805)** | **1,703,643** | **6,928** | **700,000** | **-** |
| Payment of additional dividend for 2015 | - | - | - | - | - | - | - | - |
| Prescribed equity instruments | - | - | - | - | - | - | - | 66,060 |
| DIPJ adjustment - Tax incentives | - | - | - | - | - | 4,882 | - | (4,882) |
| Other comprehensive income | - | - | - | - | - | - | - | - |
| Net income for the period | - | - | - | - | - | - | - | 1,917,726 |
| Interim interest on equity | - | - | - | - | - | - | - | (918,000) |
| **Balances at June 30, 2016** | **63,571,416** | **(75,388)** | **1,435,757** | **(87,805)** | **1,703,643** | **11,810** | **700,000** | **1,060,904** |
| 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) |
| **Balances at December 31, 2016** | **63,571,416** | **-** | **1,360,371** | **(87,790)** | **1,907,905** | **17,069** | **550,000** | **-** |
| 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 | - | - | - | 2 | - | - | - | - |
| DIPJ adjustment - Tax incentives | - | - | - | - | - | 5,358 | - | (5,358) |
| | - | - | - | - | - | - | - | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other comprehensive income | | | | | | | | |
| Net income for the period | - | - | - | - | - | - | - | 1,869,119 |
| Interim interest on equity | - | - | - | - | - | - | - | (625,000) |
| **Balances at June 30, 2017** | **63,571,416** | **-** | **1,360,371** | **(87,790)** | **1,907,905** | **22,427** | **550,000** | **1,311,601** |

(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)**

| | | Company | | |
|---|---|---|---|---|
| | | Three-month periods ended | | Six-mon en |
| | **Note** | **06.30.17** | **06.30.16** | **06.30.17** |
| **Net income for the period** | | **872,922** | **699,496** | **1,869,119** |
| 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 | 3,968 |
| Taxes | | 736 | (2,088) | (1,349 |
| | | (1,428) | 4,053 | 2,619 |
| Cumulative Translation Adjustments (CTA) on transactions in foreign currency | 10 | 8,181 | (10,311) | 7,130 |
| **Other comprehensive income (losses) to be reclassified into income (losses) in subsequent periods** | | **6,666** | **(6,215)** | **9,969** |
| **Comprehensive income for the period, net of taxes** | | **879,588** | **693,281** | **1,879,088** |

(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
original in Portug

| | Company | | Consolidate | |
|---|---|---|---|---|
| | **06.30.17** | **06.30.16** | **06.30.17** | **06** |
| **Operating activities** | | | | |
| **Expenses (revenues) not representing changes in cash:** | | | | |
| Income before taxes | 2,365,091 | 2,275,759 | 2,588,167 | 2,50 |
| Depreciation and amortization | 3,887,106 | 3,389,592 | 3,900,834 | 3,86 |
| Foreign exchange gains on loans and derivative financial instruments | 54,286 | 13,739 | 54,286 | 1 |
| Monetary losses | 327,745 | 304,788 | 337,006 | 29 |
| Equity in results of investees | (424,784) | (450,380) | (1,349) | |
| Losses (gains) on write-off/sale of goods | 10,791 | (452,157) | 10,264 | (45 |
| Provision for impairment - accounts receivable | 682,800 | 577,628 | 728,525 | 66 |
| Provision of trade accounts payable | 121,672 | 318,334 | 91,698 | 33 |
| Write-off and reversals for impairment - inventories | (36,005) | (19,774) | (31,727) | (2 |
| Pension plans and other post-retirement benefits | 15,410 | (4,788) | 15,400 | ( |
| Provisions for tax, civil, labor and regulatory contingencies | 448,505 | 485,493 | 460,494 | 51 |
| Interest expense | 529,876 | 507,652 | 529,876 | 54 |
| Other | 6,205 | (43,124) | 6,205 | (6 |
| **Changes in assets and liabilities** | | | | |
| Trade accounts receivable | (758,408) | (608,191) | (773,594) | (89 |
| Inventories | 44,200 | 139,910 | 52,273 | 14 |
| Taxes recoverable | (193,192) | 2,918 | (166,008) | (5 |
| Prepaid expenses | (425,483) | (381,424) | (436,748) | (39 |
| Other current assets | 3,148 | 36,025 | (4,301) | 1 |
| Other noncurrent assets | (23,101) | 32,758 | (22,432) | |
| Personnel, social charges and benefits | (17,386) | 67,253 | (17,726) | 9 |
| Trade accounts payable | (4,952) | (627,547) | (36,592) | (44 |
| Taxes, charges and contributions | 286,211 | (118,816) | 290,342 | 3 |
| Other current liabilities | (1,344,868) | (283,530) | (1,344,178) | (28 |
| Other non-current liabilities | (537,444) | (487,759) | (518,449) | (49 |
| | **5,017,423** | **4,674,359** | **5,712,266** | **5,89** |
| Interest paid | (398,438) | (446,340) | (398,438) | (48 |
| Income tax and social contribution paid | - | (157,831) | (175,170) | (37 |
| **Total cash generated by operating activities** | **4,618,985** | **4,070,188** | **5,138,658** | **5,04** |

| | | | | |
|---|---|---|---|---|
| **<u>Investing activities</u>** | | | | |
| 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** |
| **<u>Financing activities</u>** | | | | |
| 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) | |
| Repurchase of preferred shares | (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)

| | Company | | Consolidated | |
|---|---|---|---|---|
| | **06.30.17** | **06.30.16** | **06.30.17** | **06.30.16** |
| **Revenues** | **28,190,119** | **25,196,800** | **29,486,687** | **28,548,619** |
| 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) |
| **Inputs acquired from third parties** | **(9,398,203)** | **(8,785,611)** | **(9,913,958)** | **(10,006,992)** |
| 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 |
| **Gross value added** | **18,791,916** | **16,411,189** | **19,572,729** | **18,541,627** |
| **Retentions** | **(3,887,106)** | **(3,389,592)** | **(3,900,834)** | **(3,866,606)** |
| Depreciation and amortization | (3,887,106) | (3,389,592) | (3,900,834) | (3,866,606) |
| **Net value added produced** | **14,904,810** | **13,021,597** | **15,671,895** | **14,675,021** |
| **Value added received in transfer** | **1,401,851** | **1,897,090** | **1,036,261** | **1,521,357** |
| 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 |
| **Total value added** | **16,306,661** | **14,918,687** | **16,708,156** | **16,196,378** |
| **Distribution of value added** | **(16,306,661)** | **(14,918,687)** | **(16,708,156)** | **(16,196,378)** |
| 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) |

| | | | | |
|---|---|---|---|---|
| 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.

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

Based on preliminary studies, the Company expects the implementation of many of these standards, changes and interpretations will not have a significant impact on the financial statements in the initial period of application. However, the Company expects the following standards issued, but not yet mandatory, may have 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) <u>Basis of consolidation</u>

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 |
| **Total** | **6,564,821** | **4,675,627** | **7,447,061** | **5,105,110** |

Highly liquid short-term investments basically comprise Bank Deposit Certificates (CDB) and Repurchase Agreements kept at first-tier financial institutions, pegged to the Interbank Deposit Certificate (CDI) rate, with original maturities of up to 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 |
| **Gross accounts receivable** | **9,709,614** | **9,487,734** | **10,625,482** | **10,406,994** |
| Estimated impairment losses | (1,150,784) | (1,004,512) | (1,573,314) | (1,399,895) |
| **Total** | **8,558,830** | **8,483,222** | **9,052,168** | **9,007,099** |
| | | | | |
| 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 "Soluciona TI", traded by TData, which consists of lease of IT equipment to small and medium companies and receipt of fixed installments over the contractual term. Considering the contractual terms, this product was classified as finance lease. At 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 "Soluciona 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) |
| **Present value of accounts receivable** | **595,345** | **608,379** |
| Estimated impairment losses | (361,583) | (344,738) |
| **Net amount receivable** | **233,762** | **263,641** |
| | | |
| Current | 127,602 | 158,767 |
| Non-current | 106,160 | 104,874 |

At June 30, 2017, the aging of gross trade accounts receivable relating to "Soluciona 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 |
| **Total** | **597,606** | **595,345** |

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 |
| **Total** | **8,558,830** | **8,483,222** | **9,052,168** | **9,007,099** |

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 |
|---|---|---|
| **Balance at 12/31/15** | **(1,650,112)** | **(2,217,926)** |
| 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) | - |
| **Balance at 06/30/16** | **(1,927,536)** | **(2,371,606)** |
| 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 |
| **Balance at 12/31/16** | **(1,004,512)** | **(1,399,895)** |
| 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 |
| **Balance at 06/30/17** | **(1,150,784)** | **(1,573,314)** |

(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 |
| **Gross total** | **403,368** | **418,259** | **437,025** | **463,089** |
| Estimated losses from impairment or obsolescence | (43,412) | (50,108) | (47,158) | (52,676) |
| **Total** | **359,956** | **368,151** | **389,867** | **410,413** |

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

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

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

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 |
| **Total** | **3,315,493** | **3,426,862** | **3,364,798** | **3,504,074** |
| | | | | |
| 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) <u>Deferred taxes</u>**

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

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

| | | | | | | Company | | |
|---|---|---|---|---|---|---|---|---|
| | Balances at 12/31/15 | Income statement | Comprehensive income | Merger (note 1d) | Balances at 06/30/16 | Income statement | Comprehensive income | Othe |
| **<u>Deferred tax assets (liabilities)</u>** | | | | | | | | |
| **Income and social contribution taxes on tax losses (1)** | **-** | **-** | **-** | **-** | **-** | **1,376** | **-** | |
| **Income and social contribution taxes on temporary differences (2)** | **(155,951)** | **(97,976)** | **5,932** | **705,367** | **457,372** | **(618,793)** | **72,866** | **(1,516** |
| 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 |
| **Total** | **(155,951)** | **(97,976)** | **5,932** | **705,367** | **457,372** | **(617,417)** | **72,866** | **(1,516** |
| | | | | | | | | |
| **Deferred tax assets** | **3,535,671** | | | | **4,538,494** | | | |
| **Deferred tax liabilities** | **(3,691,622)** | | | | **(4,081,122)** | | | |
| **Deferred tax assets (liabilities), net** | **(155,951)** | | | | **457,372** | | | |

| | | |
|---|---|---|
| **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)**

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

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Pension plans and other post-employment benefits | 26,285 | 3,680 | - | 29,965 | (2,047) | 80,501 | - | 108,419 | 7, |
| Profit sharing | 106,198 | 5,950 | - | 112,148 | 13,108 | - | - | 125,256 | (35,2 |
| Provision for loyalty program | 32,604 | (14,204) | - | 18,400 | 712 | - | - | 19,112 | 2, |
| Accelerated accounting depreciation | 10,865 | (1,875) | - | 8,990 | 15,043 | - | - | 24,033 | (3 |
| Estimated impairment losses on inventories | 10,707 | (182) | - | 10,525 | 1,574 | - | - | 12,099 | (2,2 |
| Derivative transactions | 59,408 | 22,729 | 5,874 | 88,011 | (20,371) | (7,507) | - | 60,133 | 14, |
| Licenses | (1,204,226) | (108,165) | - | (1,312,391) | (108,165) | - | - | (1,420,556) | (108,1 |
| Effects of goodwill generated in the acquisition of Vivo Part. | (809,600) | (30,484) | - | (840,084) | (24,236) | - | - | (864,320) | (5,4 |
| 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) | (83,6 |
| Goodwill from GVTPart. | - | (174,076) | - | (174,076) | (348,152) | - | - | (522,228) | (348,1 |
| Technological Innovation Law | (193,146) | 30,097 | - | (163,049) | 22,109 | - | - | (140,940) | 27, |
| Income and social contribution taxes on other temporary differences (3) | 94,999 | 15,938 | 58 | 110,995 | (18,353) | (86) | (1,516) | 91,040 | (36,7 |
| **Total deferred tax assets (liabilities), noncurrent** | **711,590** | **(107,934)** | **5,932** | **609,588** | **(653,483)** | **72,908** | **(1,516)** | **27,497** | **(475,3** |
| **Deferred tax assets** | **4,153,054** | | | **4,431,710** | | | | **4,541,952** | |
| **Deferred tax liabilities** | **(3,441,464)** | | | **(3,822,122)** | | | | **(4,514,455)** | |
| **Deferred tax assets (liabilities), net** | **711,590** | | | **609,588** | | | | **27,497** | |

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

| | | | |
|---|---|---|---|
| **Deferred tax assets** | **711,590** | **609,588** | **27,497** |
| **Deferred tax liabilities** | **-** | **-** | **-** |

(1) This refers to the amounts recorded which, in accordance with Brazilian tax legislation, may be offset to the limit of 30% of the tax bases computed for the following years, with no expiry date.

(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 |
| **Total** | **6,328,976** | **6,124,134** | **6,403,271** | **6,195,822** |
| Garnishments | 171,994 | 152,948 | 174,937 | 155,744 |
| **Total** | **6,500,970** | **6,277,082** | **6,578,208** | **6,351,566** |
| | | | | |
| 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 |
| **Total** | **4,018,537** | **3,758,787** |

(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 |
| **Total** | **895,949** | **371,848** | **914,888** | **379,522** |
| | | | | |
| 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 |
| **Total** | **564,018** | **548,743** | **518,175** | **495,660** |
| | | | | |
| 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-con subsidia | |
| | TData | POP | Cia ACT | Cia AIX | Aliança | TData | POP | Cia ACT | Cia AI |
| <u>**Capital**</u> | **100.00%** | **100.00%** | **50.00%** | **50.00%** | **50.00%** | **100.00%** | **100.00%** | **50.00%** | **50.00** |
| <u>**Summary of balance sheets:**</u> | | | | | | | | | |
| Current assets | 1,802,815 | 30,821 | 16 | 23,437 | 159,474 | 1,414,039 | 27,407 | 15 | 20,33 |
| Non-current assets | 359,079 | 52,328 | - | 12,070 | - | 362,195 | 52,016 | - | 12,87 |
| **Total assets** | **2,161,894** | **83,149** | **16** | **35,507** | **159,474** | **1,776,234** | **79,423** | **15** | **33,21** |
| Current liabilities | 964,335 | 49,222 | 2 | 4,426 | 168 | 633,631 | 49,535 | 1 | 4,02 |
| Non-current liabilities | 83,177 | 109 | - | 4,637 | - | 63,139 | - | - | 5,41 |
| Equity | 1,114,382 | 33,818 | 14 | 26,444 | 159,306 | 1,079,464 | 29,888 | 14 | 23,77 |
| **Total liabilities and equity** | **2,161,894** | **83,149** | **16** | **35,507** | **159,474** | **1,776,234** | **79,423** | **15** | **33,21** |
| **Investment Book value** | **1,114,382** | **33,818** | **7** | **13,222** | **79,653** | **1,079,464** | **29,888** | **7** | **11,88** |

| | At 06/30/17 | | | | | At 06/30/16 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Wholly-owned subsidiaries | | Jointly-controlled subsidiaries | | | Wholly-owned subsidiaries | | | |
| <u>**Summary of Income Statements:**</u> | TData | POP | Cia ACT | Cia AIX | Aliança | TData | POP (2) | GVTPart. (1) | C A |
| Net operating income | 1,237,179 | 14,820 | 41 | 22,670 | - | 1,253,426 | 14,642 | 1,531,692 | |
| Operating costs and expenses | (636,244) | (8,939) | (41) | (20,196) | 14 | (716,734) | (7,663) | (1,300,347) | ( |
| 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) | |
| **Net income (loss) for the period** | **419,505** | **3,930** | **-** | **2,672** | **26** | **380,500** | **4,556** | **132,241** | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Equity pickup, according to interest held** | **419,505** | **3,930** | **-** | **1,336** | **13** | **380,500** | **4,556** | **132,241** |

(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) <u>Changes in investments</u>**

| | Wholly-owned subsidiaries | | | Jointly-controlled subsidiaries | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | TData | POP | GVTPart. | Aliança | AIX | ACT | Goodwill (1) | Surplus value of net assets acquired (note 1c) | Othe investment (2 |
| **Balances at 12/31/15** | **1,056,305** | **-** | **7,674,444** | **89,799** | **10,099** | **4** | **13,049,199** | **2,461,583** | **1,25** |
| 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 |
| **Balances at 06/30/16** | **1,047,410** | **27,146** | **-** | **75,254** | **11,334** | **5** | **212,058** | **-** | **1,08** |
| Equity pick-up | 392,134 | 2,742 | - | (34) | 552 | 2 | - | - | |
| Dividends and interest on equity | (360,000) | - | - | - | - | - | - | - | |
| Other comprehensive income | (80) | - | - | (2,710) | - | - | - | - | 25 |
| **Balances at 12/31/16** | **1,079,464** | **29,888** | **-** | **72,510** | **11,886** | **7** | **212,058** | **-** | **1,34** |
| Equity pick-up | 419,505 | 3,930 | - | 13 | 1,336 | - | - | - | |
| Dividends and interest on equity | (384,588) | - | - | - | - | - | - | - | |
| Other comprehensive income | - | - | - | 7,130 | - | - | - | - | 33 |
| **Balances at 06/30/17** | **1,114,381** | **33,818** | **-** | **79,653** | **13,222** | **7** | **212,058** | **-** | **1,67** |

(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.

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**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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Switching equipment | Transmission equipment and media | Terminal equipment / modems | Infrastructure | Land | Other P&E | Estimated losses (1) | Assets and facilities under construction |
| **Balances and changes:** | | | | | | | | |
| **Balance at 12/31/15** | **2,796,041** | **11,680,029** | **1,530,793** | **3,371,532** | **313,105** | **711,085** | **(155,277)** | **1,771,768** |
| 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 |
| **Balance at 06/30/16** | **3,810,493** | **17,237,882** | **2,941,544** | **3,672,880** | **315,505** | **792,197** | **(493,518)** | **1,971,902** |
| 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) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Depreciation | (223,436) | (1,073,868) | (732,810) | (254,205) | - | (224,701) | - | - |
| **Balance at 12/31/16** | **3,952,483** | **18,279,142** | **2,581,179** | **3,715,494** | **315,719** | **778,048** | **(485,386)** | **2,700,870** |
| 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) | - | - |
| **Balance at 06/30/17** | **4,189,593** | **18,199,116** | **2,668,863** | **3,775,306** | **313,805** | **718,890** | **(315,245)** | **2,180,870** |
| | | | | | | | | |
| 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) | - | - |
| **Total** | **3,952,483** | **18,279,142** | **2,581,179** | **3,715,494** | **315,719** | **778,048** | **(485,386)** | **2,700,870** |
| | | | | | | | | |
| 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) | - | - |
| **Total** | **4,189,593** | **18,199,116** | **2,668,863** | **3,775,306** | **313,805** | **718,890** | **(315,245)** | **2,180,870** |

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**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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Switching equipment | Transmission equipment and media | Terminal equipment / modems | Infrastructure | Land | Other P&E | Estimated losses (1) | Assets and facilities under construction |
| **Balances and changes:** | | | | | | | | |
| **Balance at 12/31/15** | **3,958,959** | **16,977,004** | **3,146,109** | **3,655,951** | **315,705** | **1,066,452** | **(494,149)** | **1,850,734** |
| 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) | - | - |
| **Balance at 06/30/16** | **3,810,642** | **17,238,002** | **2,951,252** | **3,684,166** | **315,504** | **798,591** | **(493,697)** | **2,009,033** |
| 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 | (223,465) | (1,073,897) | (735,544) | (255,715) | - | (231,071) | - | - |
| **Balance at 12/31/16** | **3,952,640** | **18,279,234** | **2,588,307** | **3,725,207** | **315,719** | **819,356** | **(485,575)** | **2,730,030** |
| 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) | - | - |
| | **4,189,720** | **18,199,181** | **2,674,395** | **3,783,289** | **313,805** | **774,577** | **(315,436)** | **2,191,583** |

**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) | - | - |
| **Total** | **3,952,640** | **18,279,234** | **2,588,307** | **3,725,207** | **315,719** | **819,356** | **(485,575)** | **2,730,030** |
| 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) | - | - |
| **Total** | **4,189,720** | **18,199,181** | **2,674,395** | **3,783,289** | **313,805** | **774,577** | **(315,436)** | **2,191,583** |

(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) <u>Depreciation rates</u>**

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:

| | Annual depreciation rate (%) | | | |
|---|---|---|---|---|
| | Company | | Consolidated | |
| Description | Previous | Revised / Current | Previous | Revised / Current |
| Switching equipment | 10.00 to 14.29 | 5.00 to 14.29 | 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 |

| | | | | |
|---|---|---|---|---|
| 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.

| | | Consolidated | | | | | |
|---|---|---|---|---|---|---|---|
| | | | 06.30.17 | | | 12.31.16 | |
| | Annual depreciation rates (%) | P&E Cost | Accumulated depreciation | Net balance | P&E Cost | Accumulated depreciation | Net balance |
| 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 |
| **Total** | | **437,560** | **(151,275)** | **286,285** | **436,564** | **(137,960)** | **298,604** |

(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 | | | | | | |
| | Goodwill | Software | Customer portfolio | Trademarks | Licenses | Other intangible assets | Estimated losses for software | Software under development |
| **Annual amortization rate (%)** | **-** | **20.00** | **11.76** | **5.13** | **3.60 to 6.67** | **20.00** | **-** | **-** |
| **Balances and changes:** | | | | | | | | |
| **Balance at 12/31/15** | **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 12/31/16** | **22,850,363** | **2,693,207** | **2,561,220** | **1,157,820** | **14,897,968** | **50,698** | **(4,581)** | **63,425** |
| 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 06/30/17** | **22,850,363** | **2,658,337** | **2,264,580** | **1,115,718** | **14,433,786** | **23,571** | **(4,550)** | **227,499** |
| 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) | - | - |
| **Total** | **22,850,363** | **2,693,207** | **2,561,220** | **1,157,820** | **14,897,968** | **50,698** | **(4,581)** | **63,425** |
| 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) | - | - |
| **Total** | **22,850,363** | **2,658,337** | **2,264,580** | **1,115,718** | **14,433,786** | **23,571** | **(4,550)** | **227,499** |

(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 | | | | | | |
| | Goodwill | Software | Customer portfolio | Trademarks | Licenses | Other intangible assets | Estimated losses for software | Software under development |
| **Annual amortization rate (%)** | **-** | **6.67 to 50.00** | **11.76 to 12.85** | **5.13 to 66.67** | **3.60 to 6.67** | **20.00** | **-** | **-** |
| **Balances and changes:** | | | | | | | | |
| **Balance at 12/31/15** | **23,062,421** | **2,385,723** | **3,154,501** | **1,274,803** | **15,635,082** | **18,190** | **-** | **76,471** |
| 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) | - | - |
| **Balance at 06/30/16** | **23,062,421** | **2,593,369** | **2,857,860** | **1,213,034** | **15,177,936** | **64,272** | **-** | **57,776** |
| 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) | - | - |
| **Balance at 12/31/16** | **23,062,421** | **2,694,521** | **2,561,220** | **1,157,820** | **14,897,968** | **50,702** | **(4,581)** | **63,425** |
| 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) | - | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Balance at 06/30/17** | **23,062,421** | **2,659,563** | **2,264,580** | **1,115,718** | **14,433,786** | **23,575** | **(4,550)** | **227,499** |
| | | | | | | | | |
| 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) | - | - |
| **Total** | **23,062,421** | **2,694,521** | **2,561,220** | **1,157,820** | **14,897,968** | **50,702** | **(4,581)** | **63,425** |
| | | | | | | | | |
| 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) | - | - |
| **Total** | **23,062,421** | **2,659,563** | **2,264,580** | **1,115,718** | **14,433,786** | **23,575** | **(4,550)** | **227,499** |

**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 |
| **Total** | **22,850,363** | **23,062,421** |

(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 Navytree) 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 |
| **Total** | **740,428** | **757,814** | **753,933** | **771,659** |
| | | | | |
| 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 |
| **Total** | **7,157,834** | **7,611,302** | **7,107,223** | **7,683,153** |

| | | | | |
|---|---|---|---|---|
| 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 |
| **Total** | **1,698,939** | **1,719,330** | **1,869,242** | **1,819,862** |
| | | | | |
| 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 |
| **Total** | **4,569,695** | **2,195,031** |

b.2) Changes:

| | Company/ Consolidated |
|---|---|
| **Balance at 12/31/16** | **2,195,031** |
| 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 |
| **Balance at 06/30/17** | **4,569,695** |

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:

| | Dates | | | Gross Amount | | | Net Value | | | Amount |
|---|---|---|---|---|---|---|---|---|---|---|
| Nature | Approval | Credit | Beginning of Payment | Common | Preferred (2) | Total | Common | Preferred (2) | Total | Common |
| IOE | 02-19-16 | 02-29-16 | 08-22-17 | 63,239 | 136,761 | 200,000 | 53,753 | 116,247 | 170,000 | 0.094411 |
| IOE | 03-18-16 | 03-31-16 | 08-22-17 | 106,559 | 230,441 | 337,000 | 90,575 | 195,875 | 286,450 | 0.159083 |
| IOE | 04-18-16 | 04-29-16 | 08-22-17 | 69,563 | 150,437 | 220,000 | 59,129 | 127,871 | 187,000 | 0.103853 |
| IOE | 06-17-16 | 06-30-16 | 08-22-17 | 50,908 | 110,092 | 161,000 | 43,272 | 93,578 | 136,850 | 0.076001 |