

TELEFONICA BRASIL S.A.
Form 6-K
March 13, 2019

**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 February, 2019

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 - 28° andar
São Paulo, S.P.
Federative Republic of Brazil
(Address of principal executive office)

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

Form 20-F

Form 40-F

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

Yes

No

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Yes

No

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TELEFÔNICA BRASIL S.A.

MANAGEMENT'S REPORT

Dear Shareholders,

In accordance with legal and statutory provisions, the Management of Telefônica Brasil S.A. ("Telefônica Brasil", "Company" or "Vivo") hereby submits for your appreciation the Company's Management's Report and individual and consolidated Financial Statements, together with the Independent Auditors' report and the opinions of the company's Board of Directors, Fiscal Council and Audit and Control Committee for the year ended December 31, 2018.

1. Message from Management

In the last two years, we have speeded up Vivo's digital transformation process. I have no doubt whatever that we are making a marked contribution to Brazil's entry into the digital world. We ended 2018 with 3,100 cities covered by 4G technology, plus a thousand cities with 4.5G technology, which makes it possible to transmit data at even faster speeds. More than 88% of Brazil's population already has access to Vivo's 4G networks. On the fixed front, we continued to expand at the same pace and took our fiber network to an additional 30 cities. This is by far the greatest expansion in terms of fiber networks achieved in Latin America. We ended the year with more than 19 million Brazilian households equipped to use Vivo's fiber network, 9 million of which through the FTTH (fiber-to-the-home) technology.

Even in a year marked by uncertainties, we are able to present a consistent financial result to our shareholders, partners and employees. We moved up to a higher level of profitability, achieving a recurring EBITDA margin of 35.8% in the year, at the same time as consolidating 3 straight years in a row of cost reduction. Our revenues have also increased, and we were able to further boost our profit and cash generation, enabling us to declare record earnings to our shareholders in 2018. All of these achievements were made possible, in large part, due to a robust digitization process, which permeated every one of the Company's areas, together with a never-ending focus on the quality of our services.

We will continue this strategy in 2019, now guided by **#RECONNECTA** - the Company's new program that is focused on growth and that will guide our actions over the coming years. A new way of portraying what we already do, and one that we believe to be Telefônica Brasil's future. **#RECONNECTA** provides a formula that aims at growth, by strengthening a company's **relevance** in the market and before its customers; a Company that registers increasing **revenues** and produces **returns**, whilst at the same time remaining socially **responsible**. All this as a result of our employees' **motivation**. I will now go on to give a brief

description of our performance on each of these fronts.

i) RELEVANCE - We are convinced that connectivity is the lifeblood of the digital world. In order to continue providing our customers with the best connection options, we are going to invest R\$26.5 billion between 2018 and 2020, as we announced at our Investor Day in March 2018, when we celebrated the 20th anniversary of our listing on the New York Stock Exchange. This amount will be focused on increasing our differentiation by uniquely expanding our fiber and 4G infrastructure. In fact, out of the amount announced, roughly R\$7 billion will be reserved for the expansion of the fiber network. In 2018 alone, we added 2 million homes that are now able to receive our fiber services. At the end of 2018, 9 million homes were able to receive our fiber-optic services and by the end of 2020 they will be 15 million.

We have also moved forward in relation to offering our customers a differentiated digital service. We have invested in both Artificial and Cognitive Intelligence and launched Aura, which has provided our users with a new experience, helping them manage their digital lives in real time, transforming data into customized information for each client.

In addition to the digital service experience, we are attempting to win our customers over with Vivo's new stores, with a connected, flexible, technological environment, and with a collaborative and integrated atmosphere. Over the course of this year, this store concept should be replicated throughout Brazil's Northern and Northeastern regions.

The proximity to our consumers has also been reflected in our campaigns. We proposed that people live less of the same, and rethink 2018 with less prejudice and more empathy. We have launched a new institutional position, *#Temhorapratudo*. With it, we invite people to reflect, without judgment, on the best use of technology. Every connection, whether technological or not, has its time and must be lived in its entirety.

ii) REVENUE - In addition to maintaining our focus on growing our customer base and monetizing our data connection services, we are continuing with our strategy of enhancing our offer with digital content. For the residential segment, we signed partnership deals with a number of key global content players such as NBA, NFL, TIDAL, Amazon Prime Video and Netflix, among others, boosting our revenue and making us more relevant to our consumers. In the corporate segment, we redesigned the offer portfolio in order to increase the added value of our voice and data products and we made progress with our strategy of operating in digital services. We want to help our business customers transform their businesses. In partnership with Ericsson, Raízen and EsalqTec, we will promote the technologies that will put agribusiness in the world of the Internet of Things (IoT), supporting us in the open innovation ecosystem. In 2019 we will carry on with more automation and greater agility in the corporate market.

iii) RETURN - Digitization and simplification initiatives played a crucial role in increasing our profitability and cash generation and resulted in savings of R\$400 million in digitizable costs in the year. Our EBITDA margin also continues to make progress. Over the last three years, our recurring margin has increased by more than 5 percentage points, posting a 35.8% figure in 2018. The result is a reflection of the Company's strategy to focus on higher value business, such as post-paid plans, expansion of the fiber network, the launch of new services for the residential and corporate audiences, coupled with strong financial discipline. We will continue to try to increase the Company's margin and optimize our investments in high-return projects such as the new cities with FTTH and investments in 4G and 4.5G coverage and capacity, while reducing investments in obsolete technologies.

iv) RESPONSIBILITY - We are committed to our business' sustainability. Our reputation is a key element in our success as a responsible company. We are the leaders in a number of RepTrack indicators (a global ranking that measures the reputation of the world's largest companies). On the environmental front, we were the first operator to use 100% renewable energy sources, which directly contributed to reducing our carbon emissions by 64%. Once again, we retained our position in the B3's 2019 ISE (Corporate Sustainability Index) portfolio.

We also made progress with the Telefônica Vivo Foundation in education and voluntary work projects, which in 2018 registered a record level of participation, with more than 7,000 employees and 75,000 people from 45 cities, and entrepreneurship projects, by means of the concept of educational innovation. We helped roughly 1.7 million people last year, with investments of R\$60 million. For 2019, which celebrates the Foundation's 20th anniversary, we expect this figure to rise to R\$75 million.

We made a lot of progress this year regarding Diversity. We are working so that the entire Brazilian plurality is represented at Vivo. We believe that an innovative and competitive company is a diverse company. Last but not least, we invited society and the government to discuss the impacts of technology on people's daily lives, the right to privacy, and digital security, with the launch of the Manifesto for a Digital Pact.

In appreciation of our HR practices, we were recognized as one of the 20 best companies to work for in the Large Business category at the 22nd edition of the Great Place to Work Awards. We are also among the three best companies to work for, in the Information Technology (IT) sector, in the ranking drawn up by Great Place to Work and published annually by IT Media. And to end the year, we were listed as being one of the best three companies in the category of over 17 thousand employees, according to the ranking “Best in People Management 2018”, promoted by the newspaper Valor Econômico.

We are looking to achieve more in 2019 - We are pleased with our achievements in 2018, but we know that we have many challenges ahead. We will continue to expand our fiber and 4G and 4.5G networks at a rapid pace, and we will work to make our company-oriented business ever more synonymous with the idea of a digital partner for small, medium and large sized companies with a portfolio of differentiated services offering unparalleled quality. We are committed to building a digital Brazil and to this end we will maintain our historic levels of investments. On the other hand, we need some of the barriers on the regulatory front to be revised in order to be able to move even further forward.

Last but not least, I was honored by the invitation from the Telefónica Group’s Chief Executive Officer, José María Álvarez-Pallete, to take on a new strategic role in the group and to help it with building an even simpler, more digital and totally people-oriented business. I feel that I am stepping down as CEO of Telefônica Brasil having achieved my mission and I am happy to pass the baton to Christian Gebara, a professional and a leader who I admire and who has an in-depth knowledge of the Company. We have been working side-by-side in recent years and Christian is the right executive to continue the growth and digital and cultural transformation that is underway at Telefônica Brasil. Finally, I would like to thank all the staff for their dedication and commitment over the last two years. In addition, many thanks to all of our customers, partners, and finally all the stakeholders with whom I have had the opportunity to interact during these two years.

Eduardo Navarro

Telefônica Brasil’s Chief Executive Officer in 2018

2. Economic Context and the Telecommunications Sector Context

2.1. Economic Context

The Brazilian economy continued its gradual recovery in 2018, although it faced challenges along the way, both domestic and foreign. The international scenario has become less favorable for emerging economies amid the normalization of monetary policy in the advanced economies and the trade tensions between the United States and China. This contributed to a reduction in global liquidity and an increase in risk premiums. On the domestic front, the year was marked by two major challenges: firstly, the truckers’ strike, which paralyzed a number of segments during the second quarter of the year and had an impact on economic activity, and then secondly the presidential election, which generated a high level of uncertainty in the face of a polarized contest in which the liberal bias candidate, Jair Bolsonaro, came out victorious. This was positive for the prospects of continued economic reforms throughout this new presidential cycle. The monetary policy environment has remained favorable, with a benign outlook for inflation, which should

allow low interest rates for a longer period of time. The so-called Selic rate, which is Brazil's basic interest rate, ended the year at a record low level of 6.5%. However, there are risks on the radar that need to be monitored, such as a deterioration in the external scenario and the new president's governability, which could have a negative impact on financial assets.

On the fiscal front, the cumulative 12-month public sector primary deficit decreased to 1.6% of GDP in 2018, against 1.7% of GDP in 2017. The improvement in the result was due to increased revenue, which was positively affected by the upturn in the level of economic activity, as well as improved control of expenses. The result was significantly better than the stipulated target for the

year (a deficit of 2.3%). Nonetheless, gross debt rose from 74.2% in 2017 to 76.7% in 2018. However, the nominal public deficit fell from 7.8% of GDP to 7% of GDP, under the same comparison basis, as a result of the drop in interest rates.

Inflation accelerated in 2018, in both the retail sector as well as the wholesale sector, but the increase was more pronounced in the latter, influenced by the hike in the US dollar and rising fuel prices. Notwithstanding this acceleration, retail inflation remained at a low level, on account of the gradual pace of the economic recovery and modest expectations. The IGP-DI, the General Price Index - Internal Availability, calculated by the Getúlio Vargas Foundation, registered an increase of 7.1% in 2018, after having dropped 0.4% in 2017, reflecting the increase in the IPA-DI, the Wholesale Price Index, which rose 8.8% in 2018, after having fallen 2.5% in 2017, and the acceleration in the Consumer Price Index (CPI), which increased 4.3% in 2018 against 3.2% in 2017. The Extended Consumer Price Index (IPCA), calculated by the IBGE (Brazilian Institute of Geography and Statistics) and used by the Central Bank of Brazil as a benchmark for its inflation targeting system, posted a 3.7% increase in 2018, which is a 0.8 percentage point hike against 2017 (an increase of 2.9%), coming out below the inflation target and above the lower limit (4.5% with a tolerance interval of between 3% and 6%).

In light of the benign inflation scenario, the Monetary Policy Committee (Copom) maintained the basic interest rate at the lowest possible level, reducing it from 7.0% at the end of 2017 to 6.5% at the end of 2018. If we deduct the cumulative inflation in the year from this rate, we get a real interest rate of 2.8%, versus the 4% figure booked the year before.

The domestic environment in 2018 was marked by political uncertainties on account of the presidential election, while the external environment gradually became less favorable for emerging economies, with the normalization of monetary policy in the advanced countries and the trade tensions between the US and China. This scenario led to a depreciation in the Real over the course of the year, ending 2018 at R\$/US\$3.87 (against the rate of R\$/US\$3.31 seen at the end of 2017). This meant that the *Real* depreciated 17.1% in relation to the previous year. The average exchange rate for the year, of R\$/US\$3.66, was 14.5% higher than the average observed the year before.

The foreign trade figures remained favorable in 2018. Brazil posted a US\$53.6 billion trade surplus in 2018 (by comparison with the US\$64.0 billion figure seen in 2017), reflecting the greater increase in imports against exports, which were up by 21.0% and 10.0%, respectively. This contributed to an increase in the current account deficit of 0.8% of GDP in 2018, versus 0.4% at the end of 2017. In terms of the country's international reserves, Brazil ended the year with US\$387.0 billion, compared to US\$382.0 billion seen at the end of the previous year.

Economic activity continued to recover gradually in 2018. The truckers' strike, which had a negative effect on economic activity in the second quarter, shook confidence levels, which had their recovery hindered by the electoral process that followed. Therefore, consumption, investment and hiring decisions may have been postponed. However, the more favorable financial conditions, resulting from the benign outlook for inflation and which favor low interest rates for a longer period, have contributed for consumption and investment to be the main drivers of growth on the demand side. It is estimated that GDP grew by about 1.3% in 2018¹, after the 1.1% result recorded in 2017.

2.2. Competitive Scenario

Influenced by the country's economic activity, which continued to recover in 2018, the telecommunications market² was able to slow down the drop in revenues that was seen in the previous three years. However, it still presented difficulties for expansion (a 0.6% reduction in

1 Market expectation according to the Focus Bulletin.

2 Takes into account the operators Vivo, AMX, Oi, TIM, Sky, Nextel and Algar CTBC.

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9M18³). Given this situation, operators attempted to gain market by intensifying competition in terms of prices and providing their consumers with greater differentiation and innovation.

In the Fixed Market, Broadband remained the highlight, with a consistent increase of accesses (an increase of more than 2 million connections during 2018⁴). The migration to higher speeds continued to be significant, particularly for Ultra-Broadband, with speeds of more than 34Mbps, which ended 2018 with a mix of 28% of the base (versus 15% in December 2017⁴). This search by consumers for greater speed allowed the consolidation of a group of small regional providers as an important player in this market, given that they managed to capture repressed demand in underserved locations. The major operators, for their part, disclosed investment plans focused on expanding the latest-generation network (mainly Fiber) in response to customers' needs.

With regard to the Mobile market, the operators remained focused on the delivery of coverage and better access quality, adapting their infrastructure on account of the growing demand for data. The number of municipalities with 4G technology coverage increased from 3,871 in December 2017 to 4,429 in December 2018⁵, and this is now available to more than 95% of Brazil's population (versus 93.3% at the end of 2017). Commercial offers highlighted the

increase in the volume of data offered, coupled with the greater availability of Value Added Services and access to mobile applications, at the same time as there was a trend towards price maintenance ("more for the same"). The attractiveness of recurrent offers implied the continuation of a significant migration of prepaid subscribers to post-paid and control plans.

The dynamics of the sector confirmed digitization as an important lever in 2018. The country's main operators reported initiatives in the interaction with customers, such as e-Commerce and e-Care, in search of differentiation and greater customer retention. At a time when the telecommunications market sees its revenue growth under pressure, gains in cost efficiency were key to the profitability of operations.

Telefônica Brasil maintained its record of delivering significant results throughout the year. In the mobile business, it remained in the lead in the post-paid segment, with the market's largest mix of high value customers, as a result of its commitment to quality and to delivering innovative solutions. In the fixed business, the year was marked by the expansion of its Fiber network (FTTH) to an additional 30 cities, reinforcing its position as the Brazilian operator with the greatest coverage in terms of the latest generation network. On the whole, the Company's businesses sought to offer their customers better quality and speed in relation to products regarded as premium ones in the global telecommunications market (Fiber Optics and IPTV).

2.3. Regulatory Environment

On the regulatory front, important public consultations for the sector took place. The main regulatory issues on the agenda of Telefônica Brasil, Anatel and the Federal Government agenda are listed below.

Conduct Adjustment Instrument (TAC)

In March 2018, Anatel's Administrative Board denied Telefônica Brasil's appeal to reverse the value of the fines that were included in Administrative Proceedings that would be time-barred in April and which were part of the Conduct Adjustment Instrument (TAC).

The TAC involved fines which added up to roughly R\$3 billion in original amounts (not-restated). However, approximately R\$400 million was deducted from this amount in order to avoid the statute of limitation. Due to the imbalance caused by the exclusion of the proceedings judged by Anatel and the impossibility of committing investments for a longer period, while waiting for the final

3Source: Anatel.

4Source: Anatel.

5Source: Teleco.

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approval of the agreement, Telefônica notified the Agency that it would reassess the conditions of the TAC.

On April 25, 2018, Anatel's Administrative Board decided to dismiss the proceedings that established Telefônica's TAC. The measure complied with the Agency's technical area's recommendation. As a result of this decision, the Company is prevented from negotiating similar agreements that involve the same set of infractions.

The amounts of the fines are once again payable to by Anatel, but Telefônica Brasil may appeal to the courts for charges that it considers to be undue.

New Regulatory Framework for Telecommunications

Supplementary Bill of Law - PLC 79/2016, which deals with the Regulatory Framework for Telecommunications, was approved by the Science, Technology, Communications and Information Technology Committee of the Federal Senate on November 7, 2018. The aforementioned Committee also approved a request for urgency for the matter, which was then forwarded to be considered by the Plenary Session.

Up to November 16, 16 amendments had been put forward. On December 21, the president of the Senate sent the project back to the Science, Technology, Innovation, Communications and Information Technology Committee to examine this set of amendments. As a result, the process will remain pending until February 2019, when the new legislature takes office.

Revised Concession Agreement and PGMU (General Universalization Targets Plan)

The decree of the PGMU for the period 2016-2020 was published on December 21, 2018. This version of the PGMU incorporates a reduction in blueprint of public telephones and an extension of the deadline for the installation of fixed lines. Part of the resources should be applied to wireless networks for the provision of STFC (Switched Fixed Telephony Services), with broadband support by means of fourth generation (4G) or higher technology, a requirement that may give rise to questions.

General Competition Targets Plan (PGMC) and associated standards

On July 12, 2018, Anatel approved the new Interconnection Regulations - Resolution No. 693/2018, which determines the simplification of existing voice interconnection modalities with the end of the categories established in the previous resolution and the introduction of rules for data interconnection. In data interconnection, the Agency requires that all concessionaires or holders of Significant Market Power (PMS) provide data interconnection points in all number areas.

On the same date, the Agency also approved the revised General Competition Targets Plan - Resolution nº 694/2018. The regulations establish a new relevant market (high capacity data transport) and introduce the concept of competitiveness levels of retail offers for each municipality (ranging from category 1 - fully competitive - to category 4 - where even with incentives for competition the provision of services is not

feasible without public policies). For each relevant market, the asymmetric measures may vary according to the competition category assigned to each municipality.

On July 26, 2018, seven acts were published in the Official Gazette (DOU), which define the groups that hold Significant Market Power for the relevant markets of the new PGMC. 2018 also saw the publication of the acts with the reference values for all the markets.

Spectrum Allocation

On May 8, 2018, Anatel's Administrative Board approved the 2018 edition of the Plan for the Assignment, Allocation and Distribution of Radiofrequency Bands in Brazil. This document consolidates and sets out the main rules for use of the band-to-band spectrum and incorporates the Agency's most recent decisions regarding the management of radio frequencies.

Anatel also held public consultations regarding regulations in terms of the conditions of use of the 2.3 GHz and 3.5 GHz bands (in August 2018 and November 2018, respectively). Both consultations presented, among other elements, the proposed allocation of the bands to the SLP (Private Limited Service) on a primary basis. Telefônica Brasil made contributions to the aforesaid public consultations, arguing that restricted interest services (such as SLP) should make use of these bands on a secondary basis. Allocation on a primary basis could reduce the options for expansion of services aimed at serving a large portion of the population.

Collection of Subsidies: 2.3 GHz and 3.5 GHz

On August 31, 2018, Anatel's Spectrum and Orbit Committee opened the Process for Collection of Subsidies in relation to the 2.3 GHz and 3.5 GHz bands. The questionnaire addressed aspects on the use of the aforesaid bands, possible bidding models and the implementation of networks, including possible interference problems. The complementarity between the 2.3 GHz and 3.5 GHz bands was also questioned, as well as that between these and other bands. The subsidies collected will guide the future bidding process of the bands.

New Spectrum Management Model

In March 2018, Anatel opened a public consultation with a proposal for reassessment of the spectrum management model. Among the topics discussed was the increase in the spectrum limit for the mobile operators. The proposal also intends to gradually outsource spectrum coordination at the national level and decouple spectrum management from the Regulatory Agenda, while maintaining the theme in the Tactical Plan and in line with the Agency's strategic objectives. In addition, greater participation in international forums (such as ITU-R, CITELE and others) is proposed, along with the creation of Radio broadcasting and Radio communication groups in Mercosur and the signing of agreements with neighboring countries in order to create an integrated system aimed at preventing and treating interferences.

One of the results of this process was the approval of Resolution No. 703/2018 by Anatel's Administrative Board, which establishes new maximum limits for radiofrequency spectrum:

- Bands below 1 GHz: up to 35% of the bands listed in the regulation;
- 1 GHz to 3 GHz bands: up to 30% of the bands listed in the regulation;

Both of the above limits can be extended to up to 40% upon competitive constraints aimed at efficient use of the spectrum.

Analog TV Switch-off and 700MHz Release

Switching-off of the analog TV signal is an essential action to activating LTE (Long Term Evolution) at 700MHz. Migration from the analog TV signal to the digital signal, which makes it possible to free up the 700MHz band for use by the SMP, is being implemented by GIRED (Group for Implementation of TV and RTV Channels Distribution and Digitalization Process) as per the schedule established by MCTIC. The first city to have the analog signal switched off was Rio Verde (in the State of Goiás) in February 2016, followed by Brasília (the Federal District) on November 17, 2016.

In the cumulative period between 2016 and 2018, of the 1,379 municipalities that were expected to have their analog TV signal switched off, disconnection was confirmed in 1,362 municipalities

(including all the state capitals and the Federal District). The remaining 17 municipalities were switched off at the start of 2019.

At the end of 2018, 4,467 municipalities were allowed to activate the LTE in the 700 MHz band. By mid 2019, all Brazilian municipalities will be able to activate the LTE in the 700MHz band.

GSAC and Internet for Everyone

On March 12, 2018, the Federal Government launched the *Internet Para Todos* (Internet for Everyone) program, which is designed to provide broadband access to remote locations without connectivity. The program is an extension of the GESAC - Electronic Government Program - Citizen Assistance Service, which is responsible for connecting schools, hospitals, health centers, indigenous villages, border posts and *quilombos* in remote areas that have no other means of being included in the world of information and communication technologies.

However, the contracting of Telebrás by MCTIC to deploy the GSAC program, as well as the contract signed between Telebrás and the US company Viasat to operate the Geostationary Defense and Communication Satellite (SGDC), were subject to legal challenges by SindiTelebrasil, by SindiSat and by the company Via Direta.

During the year, the contracts were suspended and resumed in accordance with the successive legal determinations regarding the case. On October 31, 2018, the Federal Audit Court (TCU) revoked an injunction that prohibited Telebrás from providing broadband services by means of the SGDC for the GSAC and acknowledged the legality of the contract with Viasat. However, it ruled that this contract should be modified (on account of the fact that it understood that there was an imbalance in favor of the private company).

Structural Telecommunications Networks Plan (PERT)

In July 2018, Anatel held public consultations for the proposal of a Structural Telecommunications Networks Plan (PERT), which should guide public and private investments in broadband networks. The PERT be effective for 10 years, with reviews at each two years.

From the text of the consultation, the country needs to invest in six projects in order to expand access to broadband services: backhaul with fiber backhaul with high capacity radio in those areas where fiber are economically unfeasible; 3G or 4G coverage in districts other than municipal headquarters; 4G or 5G coverage in municipalities with less than 30,000 inhabitants; fiber access network in cities with fiber backhaul; essential public networks. Public resources that can be used for PERT projects are the balances of the PGMU (General Universalization Targets Plan), Conduct Adjustment Instruments (TACs), sale and renewal of frequencies and tax exemptions (these latter items depend on federal, state and municipal governments).

Public Telecommunications Policies Decree

The Federal Government published Decree No. 9.612 of December 17, 2018, which deals with public Telecommunications policies. This is the result of a process that goes back to October 2017, which was when the draft version was submitted for Public Consultation by MCTIC.

The new decree proposes a revision of the sector's regulatory framework and revokes three earlier decrees: Decree No. 4.733/2003, Decree No. 7.175/2010 (which created the National Broadband Plan) and Decree No. 8.776/2016 (*Brasil Inteligente*' Plan). Among other provisions, the new public policy:

- In its general objectives, defines the expansion of access to broadband services, digital inclusion, competitive market, an environment conducive to the expansion of telecommunications networks, and research and technological development;
- Assigns to MCTIC the detailing of the public policy's objectives and guidelines;

- Assigns to Anatel the implementation and execution of sector regulation, guided by the policies established by MCTIC;
- Establishes conditions for commitments set by Anatel as a result of the signing of the Conduct Adjustment Instruments (TAC) or the granting of radio frequencies;
- Authorize, by means of assignment, whenever technically possible and under isonomic conditions, the use of the federal administration's buildings, land and other real estate in order to facilitate the implementation of telecommunications infrastructure;
- Maintain Telebrás' current responsibilities.

2.4. Business Strategy

In keeping with the trend observed over the last few years, 2018 saw the continuation of a scenario of fierce competition in light of the continued decline in total accesses in the Brazilian telecommunications market. The one exception is Fixed Broadband, which was a major focus of investments and commercial activity and continues to show a solid expansion trend. Issues related to enhancement and expansion of quality and digital transformation have had a pronounced impact on operators' performance.

In view of this scenario, the Company's commercial strategy in the year was marked by intense launch activity and innovations in the mobile portfolio, for prepaid, postpaid and control customers, backed up by a consistent expansion of the network, with a focus on quality and technological evolution via LTE (4.5G). Also on the fixed services front, it is worth highlighting Vivo Fibras' broadband and TV offers, backed by major efforts aimed at expanding the fiber network (FTTH) in a number of the country's regions. In addition, in the company's quest to constantly improve the customer experience an ever-increasing amount of space was allocated to initiatives in terms of digital transformation and innovation in channels. Also worthy of mention was the brand's performance during the year of the World Cup, with campaigns during the period that used the motto #joguejunto, helping to reinforce our role as an Official Sponsor of the Brazilian Team.

In the mobile business, Vivo continues to be the leader, with a 31.9% share of the market,⁶ and maintained its relevance and attractiveness by means of portfolio reformulation, introduction of new benefits and partnerships in all the segments.

In the postpaid business, which is one in which Vivo maintains a clear lead, there was a significant focus on the Family plans portfolio. As a differential, we added free international daily roaming in all the plans in this category, which resulted in a substantial growth in internet usage by Vivo's customers abroad. The Family plans' campaigns also reinforced speed and leadership, by means of 4G+, addressing current themes and new family compositions. In the digital segment, we used everyday good-humored language that is, with the launch of the web series "*Cacos de Família*" [Family Pieces].

In the prepaid business, Vivo brought relevant new developments for the customers, adding free access to Twitter by means of the Vivo Internet Social Networks packages. We launched a new offer, Vivo Giga Chip, with double the amount of internet for 6 months and unlimited WhatsApp and 15 days free of charge. We also communicated on TV and through our Digital options our Vivo Turbo offer with features such as 1GB of internet and unlimited WhatsApp.

We also redesigned the Control plans with more internet, unlimited off-net connections and new digital services. The Control plans' portfolio was widely advertised with a number of offers co-opted with smartphones and unlimited WhatsApp and featured extensive digital media strategy with a focus on

conversion.

Vivo also provided its customers with a major advantage by signing a partnership with Netflix to offer internet bonuses aimed at the portfolio of Family, Control and Vivo Turbo plans.

6Source: Anatel – December 2018.

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Concerned with meeting the needs of the different types of customers, Vivo also relaunched the Vivo Easy app, with a new model of offer of internet packages and daily rates for access to apps that charges no monthly fees and does not expire. We offered greater internet bonus per referral and, with the campaign “*Sua Vida no Modo Easy*” (Your Life on Easy Mode), we attempted to broaden our position as a disruptive digital operator.

In general, Vivo sought to reinforce its performance with quality and the institutional campaign 4G+ brought the messages “The new 4.5G generation with the quality that only Vivo can provide” and “*Experimente a nova geração 4.5G*” (Experience the new 4.5G generation). 4G coverage continued to advance in VoLTE (voice over 4G) and activation in 700MHz in a number of the country’s regions, with highlight going to the States of Rio de Janeiro, Rio Grande do Sul, Santa Catarina and Espírito Santo.

In line with the digital transformation trend, Vivo boosted the visibility and use of the *Meu Vivo* (My Vivo) app as a digital self-service channel. The campaign highlights the app’s main features, particularly the request for a second copy of the bill. The results were very positive with increased penetration of the Meu Vivo app, mainly among pre-paid customers.

In the fixed business, the offers were heavily focused on the ultra-speeds of Vivo Fibra 50 and 100 Mega, sustained by a pronounced effort in terms of national expansion of the fiber network, particularly in the States of São Paulo and Minas Gerais, Santa Catarina, Bahia, as well as in the cities of Goiânia, Fortaleza and Londrina. The number of cities with the FTTH infrastructure for Vivo Fibra rose to 121 in 2018.

From a commercial point of view, Vivo expanded the range of HD channels, overtaking the competition, and developed new offers and partnerships with major streaming services: we offer subscribers Amazon Prime Video for free for 3 months, being the first Latin American operator to make such an additional service offer. We also signed agreements to distribute NFL Game Pass in Brazil, the Tidal streaming app, and to grant discounts on movie selections on Vivo Play. Highlight also goes to the launch of the feature that enables subscribers to access Netflix directly from a channel of Vivo’s own decoder and the Smart Wi-Fi app that makes residential and corporate management of the network possible without the need for technical intervention.

In 2018, the campaigns began to occur together with Vivo TV and we brought more complete messages, with Internet and TV, always focusing on ultra-speed and stability. The messages highlighted launches such as in the “*Novas Cidades*” [New Cities] campaigns and the service differentials in the “*Destrave*” [Move On] campaigns, with the aim of encouraging customers to switch to Vivo Fibra.

Innovation was a constant factor throughout the year, especially in the physical and digital service channels. We expanded the number of stores with the “pick-up in store” offer, which is now present in 8 states and the Federal District. We also opened our first stores with the concept “Iconic Store”, focused on services, unforgettable experience in a premium and more humane atmosphere, in locations like the cities of Rio de Janeiro, São Paulo, Ribeirão Preto, Belo Horizonte and Brasília.

2018 also saw the launch of Vivo’s artificial intelligence Aura, simplifying and helping the customer to solve doubts about services contracted with Vivo, via voice or text.

Present in more than 20 service channels, with highlight going to the recent integration with Google Assistant, Aura provides the customer with a new relationship with technology.

At the end of 2018, Vivo launched the institutional campaign #temhorapratudo, in which it invites people to reflect on their relationship with their cell phones and their connections, encouraging a more conscientious use, so that we can actually take advantage of the best that technology has to offer.

Our Brand

In 2018, we maintained our strategy of positioning ourselves as an aspirational brand, without losing our competitive position and a commercially aggressive approach to the competition.

To connect people and to add a new perspective on technology, we drew on inspirational stories and a more striking opinion of the brand with the “*Menos do Mesmo*”(“Less of the Same”) concept.

As leader in its segment, and by tracking the movements within society, Vivo has taken the discussion about the use of connection to a new level. Using the “*Tem Hora Pra Tudo*”(“There’s a Time for Everything”) campaign, we invited people to reflect on their relations with technology and people.

To ensure differentiation and commercial appeal against the competition, we continued to strengthen our superiority in relation to the quality, coverage and speed of Vivo 4G+, the benefits of Family and Prepaid Plans. Another highlight was the ultra-high speed of Vivo Fibra, which was rolled out in 30 new cities with the strength and prestige of the Vivo brand.

Once again, we received a series of recognitions and awards that attest to the soundness of our brand. Vivo continues to rank among Brazil’s most valuable brands, retaining 9th place in the ranking published by consultancy firm Interbrand, with an estimated value of R\$2.3 billion. For the 10th consecutive year, Vivo was elected Top of Mind brand in the mobile phone and broadband categories in the reputable survey by the *Folha de S. Paulo* newspaper. Our commitment to customers has also been acknowledged, thanks to our recognition for the 15th consecutive time as Brazil’s most reliable telephony operator, according to the *Seleções* Magazine in partnership with Datafolha.

The Company was also highlighted in the market’s top rankings. Telefônica Vivo was elected the Company of the Year in the “*As Melhores da Dinheiro 2018*” ranking of the *istoé Dinheiro* magazine, in addition to sweeping the awards in the Telecommunications category. It was recognized as the best IT & Telecom company in the *Valor 1000* yearbook published by the *Valor Econômico* newspaper. For the fourth consecutive year, we took first place in the Telecom category in the *Empresas Mais* survey of the *Estadão* newspaper. We also received the 2018 *Empresas Notáveis* Award created by *Grupo Padrão/Consumidor Moderno* in the “Mobile Convergence” category.

Communication Plans and Campaigns

Vivo’s communication once again took center stage with a strategy that combines both positional messages that lead to greater connection and engagement with people, and commercial relevance using innovative approaches while focusing on the benefits of products and services.

To position Vivo as an increasingly human brand close to its user public, we launched the *#TemHoraPraTudo* Campaign emphasizing conscientious use of the connection. The campaign presents moments in which people notice that they are failing to live the moment because they are connected to their mobile phones; so they choose to put their mobile phones aside to live these moments to the full.

To strengthen the superiority of Vivo, our communication has focused massively on the 4G+ technology that offers customers 10 times more speed. The message was emphasized throughout Brazil, having also been rolled into products and services campaigns such as Family Plans.

In postpaid, we pushed ahead with the 4G+ Family Plans campaign whose concept was “*Viva mais as novas famílias e menos os mesmos planos*”(“Live new families more and the same plans less”). The strategy also contained a strong digital element, with the “*Cacos de Família*”(“Family Pieces”) project. The episodes play up the advantages of being a *Vivo Pós* customer, including: Double Play with Netflix, Spotify

and *Vivo Música*, Double Play with YouTube, Essential Apps (Easy Taxi, Cabify and Waze exempt from allowances), Vivo Travel (7 days free internet abroad) and free services for Dependents.

In the massive mobile segment, we launched a campaign to disclose the *Vivo Controle* plan with the “*Sua Vida sob Controle*” (Your Life Under Control) concept, drawing attention to the plan’s main benefits such as unlimited calls and WhatsApp, in addition to a fixed price every month and the most extensive mobile internet coverage in Brazil.

To attract new customers to the prepaid segment, we released the Giga Chip, which offers double internet, unlimited WhatsApp and 15 days free of charge. The prepaid segment also benefited from two digital campaigns: Digital Reloads, that seek to attract more customers with a bonus of up to 1GB, and the new 15-day *Vivo Pré Turbo* offering in which we announced a new 15-day allowance option that keeps our customers connected longer.

The retail segment was also very much to the fore in communication last year. Using a differentiated strategy under the concept “*Tem Tudo na Vivo*” [Vivo Has Everything], we began presenting Vivo as a connection point for customers wanting to buy a new smartphone, accessory or even take advantage of the tips from the Vivo Guru for their technology doubts, in order to attract more customers to our stores by highlighting the main products and services offered through this channel.

In the case of Smartphone launches, we produced over 30 joint campaigns with partner manufacturers like Samsung, with the S9 and Note 9 smartphones, Motorola, with the Moto One, LG with the G6 and Apple with the launch of the Xr and Xs iPhones. In addition, we continued the strategy of selling portfolio devices using the “*Smart Ofertas*” [Smart Offerings] campaign, in which communication was directed at the retail segment, digital media, OOH (Out of Home) and shopping malls of São Paulo.

In the case of Vivo Fibra, we continued with the campaign “*Destrave: mude para Vivo Fibra*” (“Move On: change to Vivo Fibra), which exploits the insight, identified in a survey, that broadband and TV consumers lead inertial lives and rarely reevaluate their operators. The campaigns also explore digital services, adding more innovation and leveraging new ways of consuming online content, offering our customers greater possibilities.

As an opportunity for winning over new customers, we also massively announced the arrival of Vivo Fibra in new cities, using a regionalized media strategy that included external media, trade, radio stations and local printed media.

In the case of the massive internet, we relied on a performance strategy in the online media that lasted the entire year and, from time to time, we advertised on outdoor media (billboards, bus stops, street clocks, etc.) speeds of up to 10MB in cities across the state of São Paulo.

The Vivo TV service was supported by an online performance campaign and outdoor media in São Paulo during the last quarter of the year, which produced good results.

In the quest to shadow the movements within society and the market, the new Vivo Easy was designed to meet the demands of the Millennials. Fully customizable using the app, Vivo Easy enables the customer to choose the amount of internet allowance they wish to purchase, daily telephone calls, SMS and unlimited-use applications.

To encourage downloading and use of the Meu Vivo app, we launched a campaign with the concept “*Em que tempo você vive?*” [In what era are you living?], emphasizing that whoever does not use Meu Vivo is living in the past. The campaign emphasized how easy and practical it is to use the application for a range of functionalities such as reloading, obtaining second copies of bills and consulting and exchanging *Vivo Valoriza* points.

Throughout the year we continued to advertise *Vivo Ads*. We created a strategy focused on differentiated formats intended for the advertising market, emphasizing the platform’s ground-breaking nature and massive reach, with more than 100 million people in the base.

We also pursued advertising efforts focused on the B2B audience. We continued with the positioning “*Abra sua empresa para o Novo*” (Open your company to what’s New), highlighting this year the products Vivo Fibra, Mobile and Cloud, with a strong Digital and OOH presence in airports. In the case of pay-TV, we made a huge effort by sponsoring the Shark Tank program that focuses on new entrepreneurs, for which we created exclusive and customized content.

The highlight of 2018 was the initiatives involving the FIFA World Cup and sponsorship of the Brazilian National Team. To strengthen our sponsorship, the “*#JogueJunto*” concept was created, and the Vivo logo was transformed into the flag of Brazil, followed by the text “Vivo. Oficial

Sponsor of the Brazilians' National Team", putting supporters, players and the brand on the same level. Vivo was the No. 1 most recalled brand⁷ among the World Cup sponsors, and the 3rd most mentioned brand on Twitter during the matches.

Relationship events and initiatives

Last year, Vivo became an important patron of the performing arts, being one of the brands most recalled by the general public when the subject is theater. In all, 31 shows were sponsored, with 860 sessions throughout Brazil.

These initiatives provided a range of cultural experiences to Vivo customers who were able to redeem free tickets through the *Vivo Valoriza* relationship program, as well as vouchers giving exclusive discounts of up to 70% in the sessions.

Among the shows sponsored, worthy of note were the musicals "The Sound of Music" and "Annie", two major box office successes with over 90,000 viewers each.

The number of plays at Teatro Vivo tripled from 5 to 15 productions running in 2018. In June and July, the first Vivo Theater Festival was held, with a schedule of plays acclaimed by the critics and the public. As a result, we hosted over 7,000 people, with spontaneous media of R\$2 million.

In Rio de Janeiro, the Vivo Rio show venue, where we have held sponsorship and naming rights since 2006, put on 126 shows for 249,000 people, with 29,000 *Vivo Valoriza* customers using the exclusive discount under the relationship program.

We maintained Vivo's commitment to increasingly foster the connection between the public and art in Brazil by sponsoring the MASP and MAM museums (SP), *Instituto Inhotim* and *Palácio das Artes* (MG) and the MAR (RJ). With a lounge that recreated a huge art gallery and a central item inspired by all the connections we maintain on a daily basis, we participated yet again in the *SP Arte*, which was held in April, and *SP Arte/Foto* in August. The two events attracted over 50,000 visitors in 2018.

Continuing the strategy of consolidating Vivo as the leading operator for the gamer public, we continued to sponsor the Vivo Keyd e-Sports club, one of the most important and traditional clubs on the South American electronic sports scenario, which assures us greater coverage in various communities and proximity with a demanding audience avid for technology.

In addition, we were present in important cities, sponsoring events with regional coverage, such as *GameCon* in Brasília, *AnimeXtreme* in Porto Alegre and *Digicom*, the Northeastern Branch of League of Legends, at championships with online qualifying rounds and a live final in the city of Natal.

We also engaged in actions to sponsor the Brazilian National Soccer Team, in partnership with the *Vivo Valoriza* Loyalty Program: several customers were able to watch the Brazilian National Team training at the Granja Comary training ground (Rio de Janeiro) on the eve of the FIFA World Cup in Russia. In addition to the result obtained with the *#JogueJunto* campaign, sponsorship of the Brazilian National Team provided extensive visibility in pitch-side advertising hoardings, backdrops and the training gear of the players and technical commission.

In tennis, we sponsored the Brazil Open for the third consecutive year (Brazil's second-largest tournament) and *Instituto Tênis* (a Center of Excellence for training young players), ensuring brand visibility and proximity to customers passionate about the sport.

In the case of corporate clients, we staged events to generate leads, accelerate opportunities, improving satisfaction and loyalty and strengthening the positioning of the brand during 2018. In all, over 6,500 companies were involved, namely:

7 Source: Kantar Millward Brown.

- 124 actions in Brazil's largest soccer stadiums and show venues (Citibank Hall, Vivo Rio and Teatro Vivo);
- 11 personalized experiences that brought us together with 360 companies in the largest and most strategic business centers (São Paulo, Rio de Janeiro, Belo Horizonte, Fortaleza, Recife and Curitiba);
- 27 content meetings, strengthening the digital positioning, in the company of 1,420 influencers within the leading companies in the market in 12 states across the entire country, which provably generated demand during the year;
- 28 sponsorships of the most relevant market events, such as the IT Forum, Gartner, Mind the Sec, and Ciab among others, where the main focus was on rolling out the portfolio of digital services (Security, Big Data, Cloud and IOT), with a direct impact on over 62,000 people and significant business results: 290 exclusive meetings with CIOs, 291 leads generated and 60 opportunities for engagement with companies from a variety of segments.

B2B customers, essentially vertically integrated companies in commerce, services and industry, representing the greatest consumption of telecommunications services, were once again the most affected by the slowdown in GDP growth. Nevertheless, we focused our strategy on changing the offer of voice services with a focus on a better cost-benefit solution, in addition to growing IT revenues.

In mobile B2B business, we continued to pursue our strategy of operating in digital services, increasing the added value of mobile voice and data products through the Smart Companies portfolio, wagering on unlimited voice services, shared data packages, and international daily allowances, in addition to specific allowances of mobility apps.

We rolled out the data management service for the entire B2B portfolio, enabling internet usage management across all company ranges, as well as the optimization of contracted allowances with no surprises on the bills. We also launched Smart Watch, which allows our customers to use their line on their mobile telephone or watch without having to contract a new plan for the second device.

In the case of corporate fixed segment, our focus was on sales of SIP Trunking with nationwide coverage, consolidating our advanced voice portfolio. Still on the question of voice services was the development of the advanced voice UC product, which will permit us to offer cloud-based corporate voice services, enabling unified communications, solutions for contact centers and applications for work team integration. In Broadband, we saw growth in migrations between technologies, especially to fiber. In the case of fixed, we continued to see growth in the middle market company segment, boosted by the coverage of the GVT network, in addition to consolidating our position among major customers.

Some of the highlights of 2018:

- we increased our penetration in mobile data packages by 5.6 p.p., in addition to raising our net income by 12%;
- growth of 17% in fiber revenues, due to the huge volume of new increases in migrations from other technologies;
- in M2M, we consolidated our leadership and achieved a 41.5% market share in December 2018;
- in IT, we grew by 8.6% in net income, the highlight being the supply of equipment, growth of 16% in security revenue and 12% in revenue from *Vivo Soluciona TI*. We are also advancing in Open Cloud services by increasing the volume of services offered, which enabled us to receive two important certifications, CSA Star, which vouches for our infrastructure and operations, and ISO 27001, which is one of the most recognized in terms of information security and which now includes Open Cloud, in addition to our IT & Data Center

services.

3. Business Performance

Telefônica Brasil S.A. and its wholly-owned subsidiaries operate mainly as nationwide providers of fixed and mobile telephone services through a Concession Agreement for Switched Fixed Telephone Services (STFC) and authorizations granted by ANATEL to provide other telecommunications services such as data communication, broadband internet, and pay-TV as well as value-added services not classified as telecommunications.

3.1. Infrastructure and Network

Since 2013, the Company has been consolidating a robust network capable of fulfilling customers' expectations. We have been able to make progress on migration from Time Division Multiplex (TDM) exchanges to Next Generation Networks (NGN), which has reached 63.4% of migrated fixed traffic, while modernizing exchanges and adapting data-center infrastructure. Most of this effort has gone into replacing optical cabinets (ARO) with Multi-Service Access Nodes (MSAN), that enable us to offer broadband to large numbers of customers who have not yet had access to this service

Telefônica Brasil continued to expand its mobile network capacity and coverage in order to absorb growing voice and data traffic, getting an even bigger edge over the competition by significantly expanding 4G technology coverage, and is the absolute leader in 3G technology.

At the end of 2018, the Company's mobile network provided LTE Advanced Pro, LTE, WCDMA, GSM/EDGE and CDMA digital technologies to 4,592 municipalities. This represents 82.4% of Brazil's total municipalities, or 96.0% of the population. The 2G/GSM-EDGE network ended 2018 with 645 municipalities covered in the state of São Paulo, making a total of 3,759 municipalities in Brazil. In the same period, the 3G/WCDMA network was running in 645 municipalities in the state of São Paulo, making a total of 4,417 municipalities served by this technology in Brazil.

The 4G (LTE) technology, launched in 2013, was an important step forward for the mobile network, since its transmission rates surpass those of the 3G Network. We are continuing to expand the coverage of this technology, ending the year with 3,100 municipalities enjoying the 4G network in Brazil.

The nationwide expansion of the LTE Advanced Pro (or 4G+) network was an important milestone for the Company. This technology allows customers with compatible terminals to achieve even higher transmission rates than with traditional 4G. In 2018, we finally managed to roll out this technology in 1,000 municipalities.

The implementation of the fiber network (GPON technology) achieved in 2018 total coverage of 19.8 million homes passed, of which 8.7 million in the state of São Paulo and 11.1 million in the other Brazilian states, with speeds ranging up to 300Mbps.

Our fiber product portfolio includes a high definition IPTV service (HDTV). In addition to IPTV, the company's portfolio of advanced products for corporate customers includes the GPON fiber service.

3.2. Sales

Telefônica Brasil's commercial structure ended 2018 with approximately 1,600 points of sale, including its own and those managed by authorized resellers, and approximately 12,000 points of sale in retail outlets in addition to remote channels such as Telephone and Online Sales. The capillarity strategy focusing on efficiency and operational excellence, combined with the acceleration in the channel digitalization process, has enabled us to intelligently allocate resources

while maintaining our leadership in the Brazilian telecommunications market, dominating the high-value segment.

The sales channels transformation process, which began in 2017, has enabled us to consolidate partnerships and to operate in a more strategic manner. The sales team has boosted sales of higher added value services, combining the best value proposition in the market with an increasingly balanced sales force in every region of Brazil. This has all contributed to higher profitability, enabling us to further accelerate the digital transformation of the business.

In the case of Stores, we continued the process of transforming our points of sale into points of experience by making continuous significant advances in improvements to infrastructure, systems, customer service and capillarity that ensure an even more efficient and profitable sales operation. Furthermore, we accelerated our penetration in sales terminals, renegotiated lease agreements, strengthened our partnerships with authorized resellers and improved our customer relationships by offering friendlier spaces for holding sales drives, talks, events and workshops. Lastly, we opened five iconic stores and two stores in store with a strategic partner in the south of Brazil.

The Distribution channel, which includes drugstores, newsstands and bakeries, among others, accounts for 85% of prepaid captures and 75% of Reloads. During 2018, the channel focused on initiatives dedicated to sales efficiency through consolidation of our partners and micromanagement of their operations that currently use capillarity and supply management tools, providing guidance for the sales force in the end-to-end chain. These initiatives, combined with the expansion in sales of Control plans and the evolution of the incentive program, provide our customers with greater convenience, and they now have an even greater availability and diversity of the company's products in this segment.

In the Retail channel, we maintained strong partnerships with the chain stores through the “*Turbine suas Vendas*” [Boost Your Sales] program, with an increasingly intuitive interface and attractive prizes, a program that was awarded the silver trophy in the “*Êxito Continuado*” [Continued Success] category at the FIP. In addition, we once again engaged sales promoters, this time with a supplementary and intelligent approach, focusing on points of sales with low Vivo penetration but high potential for capturing the market.

In the Door-to-Door channel, whose profile is that of itinerant salespeople, we continued with the process of transformation through structured growth of the operation, now focused on the high-value segment. This operation, which was already engaged in prospecting for customers in central and suburban regions which physical channels cannot reach, can now count on an active channel for capturing high-value convergent sales to residential and condo customers.

In Telesales, we achieved 10 million products sold and around 14 million calls. The channel brought significant savings by optimizing the inbound operation, improving centralized partner agreements and internalizing the mobile chat. Where digitalization is concerned, currently around 65% of new sales choose the digital bill as their method of payment. We also innovated in how we approach potential customers, actively working on likely audiences and developing online channels such as the chat room which, since it was internalized, has doubled its productivity. The implementation of voice biometrics and speech analytics technology has provided feedback from the sales process, generating better quality indices by reducing unwanted contacts and excessive calls. Lastly, we made progress in setting up new sales platforms covering the customers entire life cycle, in addition to evolving in the use of artificial intelligence by introducing a tool that captures customer data and standards of behavior and searches among our operators for the one with the best profile for serving them, which generated a significant volume of incremental sales.

In B2B mobile retention, we reached the historic level of 81%, in addition to churn of under 1%. In B2C mobile, thanks to a structured work plan with partners and a new sales policy, we achieved a retention rate of 73.5%. We also implemented a platform that uses the artificial intelligence of speech analytics to increase the first call resolution rate, in addition to a B2B project that is transforming our operations, using a tool that permits greater control of the discounts offered and a significant reduction in average service time.

In the digital sales and service channels, e-commerce results grew by 220% in the mobile segment and by 33% in fixed. The continuous improvements in the usability of e-commerce, which contribute to the customer's digital experience and, consequently, the digital presence of the Vivo brand, directly affected these results. Worthy of note among these improvements is the Pick-up in Store project where customers can purchase smartphones via e-commerce and pick them up at physical stores. The project now accounts for over 30% of e-commerce sales in the places where it was launched (nine capital cities and 15 stores up to December).

Meu Vivo, the company's main self-service facilities channel that strengthens its digital service strategy, also contributed to the positive performance of the digital channels: the number of unique users of the application rose by 30% for the year, while digital interactions with customers stood at 70% of total contacts with Vivo against 15% in 2017.

In the search to promote innovative digital services for customers, Vivo launched the Aura cognitive relationship platform, based on the cognitive motor and proprietary systems of the Telefônica Group, replacing the virtual assistant Vivi. Aura is now available to customers in over 20 digital channels, with more than 1 million inquiries a month.

Once again this year, the company successfully captured the potential of the internet business while strengthening its digital maturity in the Black Friday/Black November promotional period in Brazil. Sales grew by 6% in the period, compared with the same period of the previous year.

In addition, with a view to pushing ahead with all transformation initiatives, we launched Vivo Digital Labs to accelerate deliveries of digitalization of the e-care and e-commerce experiences. Consisting of multidisciplinary teams, the SQUADS operate by applying agile methodologies and innovative approaches, focused on assertively delivering improvements in the customer experience in digital channels.

3.3. Information systems

2018 was marked by the continuity of structuring projects and the global digital transformation strategy. This enabled us to strengthen our commitment to investment in IT as a long-term competitive differential.

Thus, we made significant progress in each pillar of our strategic plan, emphasizing those involving improvements in efficiency:

Resources – we fulfilled important deliveries last year. As a result, our ITR[®] stood at 4.0% of revenue.

Transformation of the Business – we continued to move ahead with implementing the FullStack B2C project that aims to substitute several legacy systems with a single system consisting of the most modern the market has to offer. At the close of the year, we reached the milestone of 1 million customers on this new platform, whereby our customers can now enjoy unique functionalities such as acquiring multiple lines in a single operation. Furthermore, we initiated important transformation projects like the FullStack B2B, whose aim is to simplify operations and ensure added value and uniformity across all channels, in addition to producing more competitive offers; and the New OCS (Online Charging System), upgrading the current platform, making it more robust and compatible with new technologies.

Value Deliveries -we initiated the TI2X Project to accelerate IT deliveries, enhancing the area's indicators and reducing time-to-market for new launches. We accelerated the E2E (End-to-End) digitalization index on several fronts, which means fewer manual processes, greater reliability and a better digital experience for the customer, such as the Call Center and Electronic Invoices. We pushed ahead with the development of the Fourth Platform where, by using tools like Big Data, we will be able to detect the profile of our users and consequently improve our offerings. Among

8 Total IT cost index developed by consulting company Gartner.

the digital services initiatives, worthy of note is Aura, our assistant powered by a proprietary algorithm of Artificial Intelligence, clearly differentiating us from our competitors.

Operational excellence – we continued to simplify our systems, which resulted in a reduction of around 30% of the systems over the last 3 years, eliminating complexity and obsolescence. From an infrastructure perspective, we increased the server virtualization rate, resulting in a better return on invested capital.

All these initiatives result in operational excellence, proof of which is the systems availability rate of more than 99.9% in 2018.

3.4. Customer Service

In 2018, digitalization and operational improvements led to a drop of over 20% in calls to the call center in relation to 2017. Moreover, there was an improvement in the customer experience as indicated by the reduction in repeat calls and the evaluation by outliers, in addition to increasing the autonomy of our representatives in the search for first call resolution. This is partly due to the efforts to expand the digital channels and develop more options for self-service facilities.

Among the main digitalization projects is the humanized IVR, which now supports 90% of our traffic and offers more than 80 services through a friendly and more humanized experience by using personalized menus and helping to improve the retention of IVR.

Focusing on new resources and driving forward their adoption, the Meu Vivo app is helping to migrate calls to the digital world, already with 12 million single users. The app is connected to Aura, the Vivo Artificial Intelligence, which was launched in February and registered 15 million interactions in the first 10 months. Vivo is among the first operators in Brazil to provide a cognitive intelligence-based relationship tool.

Notwithstanding the efforts to take customers to our digital channels, some of them still want to talk – that is why we have developed a Cognitive Call Center that is responding to thousands of calls with high rates of approval and precision. This is a continuous improvement process, since it will continue learning new issues at our brand-new Bots Training Center, where the best human representatives analyze its interactions and help it to improve them.

To bring together all the digital projects mentioned and guarantee the best experience for the customer, a corporate culture program was created, committed to providing a unique experience at all points of contact. It will guide our decisions and priorities to ensure an experience that is aligned with the four main principles: reliable, easy, pleasant and efficient.

4. Corporate Governance

The fundamental principles of corporate governance at Telefônica Brasil S.A. are set forth in its Bylaws and in the internal rules and regulations that supplement the concepts contained in the law and standards governing the securities market. The purpose of these principles, which guide the activities of the Company's management, can be summarized as follows:

- Maximizing the Company's value;
- Transparency in the Company's accounts and in the disclosure of material information of interest to the market;
- Transparency in relations with shareholders, employees, investors, customers and public entities;
- Equal treatment of shareholders;
- Participation by the Board of Directors in overseeing and managing the Company and in accountability to the shareholders;

- Participation by the Board of Directors regarding Corporate Responsibility, ensuring the Company's continuity.

Inspired by these concepts and to promote good corporate governance, the Company has instituted measures that render its actions clear and objective, while avoiding conflicts of interest. In 2018, the Company implemented its Policy on Transactions with Related Parties, whose purpose is to establish procedures that contribute to ensure that transactions with Related Parties entered into by the Company and its Direct and Indirect Subsidiaries are based on the principle of transparency, are undertaken in the Company's best interests and are conducted under normal market conditions.

4.1. Board of Directors

Under its Bylaws, the Company's Board of Directors consists of at least five, and at the most, seventeen members, with a three-year term of office and reelection permitted. The Company's Board of Directors currently consists of twelve members, one of whom is elected by the shareholders of preferred shares in a separate vote and without the participation of the parent company, while the others are elected by a general vote of the common shareholders. In 2018, the Board of Directors met 18 times in complying with its functions.

This joint body is advised by the following committees:

- Audit and Control Committee
- Appointments, Remuneration and Corporate Governance Committee
- Quality of Service and Commercial Attention Committee
- Strategy Committee

According to the regulations of the Committees, they consist of three to five members elected by the Board of Directors from among their peers, for a unified term of office of three years, with reelection permitted.

Currently, the Audit and Control Committees, the Appointments, Remuneration and Corporate Governance Committee and the Quality of Service and Commercial Attention Committee consist of three members. The Strategy Committee consists of four members.

4.2. Fiscal Council

As provided for in the Company's Bylaws, the Fiscal Council is permanent in nature. The council members are elected by the Annual Shareholders' Meeting for a term of office of one year, with reelection possible. In accordance with Brazilian corporate law, preferred shareholders are entitled to elect a full member and an alternate member of the Fiscal Council, in a separate vote, without the participation of the preferred shares of the controlling shareholder.

The Bylaws establish that the Fiscal Council will consist of at least three and a maximum of five full members and an equal number of alternates. The Company's Fiscal Council currently consists of three full

members and three alternates. In 2018, the Fiscal Council met 09 times in complying with its functions.

4.3. Executive Board

In accordance with the Bylaws, the Executive Board consists of at least three and, at the most, fifteen members, shareholders or not, resident in Brazil, who are elected by the Board of Directors for a term of office of three years, with reelection permitted. It currently consists of three members with the following positions: Chief Executive Officer; Chief Financial and Investor Relations Officer; and General-Secretary and Legal Counsel.

4.4. Investor Relations

In order for its shares to achieve fair valuation, the Company embraces practices intended to properly clarify its strategy, business evolution, besides its policies and any events arising to shareholders, investors and analysts.

Material information is made available on the Company's portal on the internet (www.telefonica.com.br/ri), with versions in Portuguese and English. All notices, material facts, financial statements and other corporate documents are filed with the regulatory bodies – CVM (Brazilian Securities Commission), in Brazil, and the SEC (the Securities Exchange Commission), in the United States. In addition, the Company has an Investor Relations team that clears up doubts by telephone or in individual meetings, when so requested.

4.5. Independent Auditors

In compliance with CVM Instruction No. 381 of January 14, 2003 and Circular Letter CVM/SNC/SEP No. 01/2007 of February 14, 2007, the Company and its subsidiaries inform that the Company's policy regarding its independent auditors and their services not related to the independent audit is based on principles that preserve the independence of the auditors. These principles are based on the fact that the auditors should never audit their own work nor carry out management activities or advocate in favor of their client or render any other services that are prohibited by current regulations, thus maintaining the independence of the independent auditors' work.

In 2018, no services other than the external audit were contracted with the independent auditors, PricewaterhouseCoopers Independent Auditors.

5. Human Resources

In November 2018, the Group announced the new global strategic program, #RECONNECTA, which is directed at growth and has a formula for achieving it: "G = M*R4" where:

G, which stands for Growth and the business accelerators, which are represented by the R's in the formula and mean, respectively: R4 - Relevance in order to re-imagine our relationship with customers and surprise them with our technology; Revenues in order to reinvent business models and take advantage of opportunities: more customers and greater customer loyalty; Returns in order to re-learn how to work and increase efficiency and benefits and be more relevant to our shareholders; and Responsibility in order to rewrite the rules of the game and practice our values, acting in a responsible and sustainable way. Last but not least M, which denotes Motivation, which is represented by our motivated teams of employees, who play a key

role in our business strategy. We believe that it is through our employees that we will achieve the desired growth.

We are continuing with our Digital Transformation process that is underpinned by technology in order to go beyond excellent connectivity and offer complete services to all of our customers. "DNA Vivo" was launched,

which consists of 4 principles: Reliable, Easy, Charming and Efficient, a program that attempts to permeate all of the company's areas and people, transforming the way we assist and relate to our customers.

On a global level, we implemented Workplace by Facebook, a corporate social network in which all employees can communicate, learn, interact and take advantage of all the diversity of our teams. A number of programs such as Meetings with the CEO and COO, and Customer in Focus were carried out with the purpose of giving the employees a voice and a more active role, enabling executives go through the customers' complete experience in order to understand their real needs.

The result of this work also showed up in our Organizational Climate and Commitment Survey, with participation of 81% of the eligible audience and a Favorability Rate of 85%. Based on the results of the survey, the VP Persons team and the managers are able to map the points for climate improvement and to draw up action plans, supported by an online tool that provides a number of quantitative analyzes of the results.

The Vivo Diversity Program was launched in this emblematic year, for the purpose of appreciating diversity and playing our role in society, cooperating to make it fairer and more connected. We are committed to promoting a more inclusive culture and a more diverse environment, with the aim of valuing the diversity of points of view, origins, identities and orientation, so that everyone feels at ease to be the way they are, with their differences being respected.

5.1. Interaction

In 2018, we strengthened the connection with our team with actions that reinforce the digital transformation, the appreciation of the teams and the emotional bond between employees and the company, contributing to a positive organizational climate. Highlight goes to the following actions:

- **Celebrations:** we continued with the main festivities such as Mother's Day and Father's Day, with the aim of reinforcing the company's ties with its employees and their family members. We also hold end-of-year celebrations, with the teams meeting up in all the cities in order to celebrate the year's deliveries.
- **Recognition:** We disseminated "*Gente de Valor*" [People of Value], a Global program that allows recognition at different hierarchical levels. In Brazil, more than 31,800 recognitions were made. In connection with the recognition of team projects, Telefónica Brasil held the 2nd edition of the Viva Tudo Award, with the best projects linked to corporate strategies. 186 projects were enrolled, involving more than 1,400 employees.

5.2. Compensation

In order to attract and retain the best professionals and recognize their individual performance the Company adopts a salary structure and compensation policies which are in line with the best market practices. Variable compensation programs and a wide range of benefits supplement the total compensation package. In 2018, 3,682 professionals were promoted and 2,118 were included in the salary increase process, which adds up to a total of 5,800 professionals who received an increase in compensation, in addition to the legal adjustments applied.

5.3. Recruitment and Selection and Development Programs

At Telefônica Brasil, we attract and retain the best talents in the market by means of selective selection processes and thorough development processes, with the support of online Recruitment and Selection platforms and evaluation tools that are appropriate to each level of complexity - from operational to strategic. In addition, we have an important Internal Recruitment process, which gives visibility and career opportunities to all employees. In all of the selection processes, the Company adopts actions that endorse reducing inequalities and which are consistent with the best practices for diversity and inclusion, reinforcing our belief that everybody is entitled to equal treatment and access to opportunities.

In 2018, we invested roughly R\$59 million in education, with more than 300 thousand participations by full-time employees and 330 thousand participations by partners in our training actions, which added up to a total of 1,400 thousand hours of training for our own employees and 440 thousand hours of training for partners, taking into account both face-to-face training as well as online training. We reinforced the role of digital education via the SuccessFactors portal, with 40% of the training courses for staff members being carried out by means of digital education.

Our corporate educational actions, such as the Learning Hub platform (online course platform offered by educational partners covering topics related to innovation and technology, career and self-development) are aimed at boosting the digital mindset. We also encourage important drivers by means of compulsory courses for all employees on compliance, privacy and data security, principles of operation and responsible business.

We continued to promote technical certifications that are important for the business and to offer subsidies for professional specialization and foreign language courses. The Educational Development Program had approximately 850 employees enrolled in 2018, with an investment of roughly R\$1.3 million to subsidize up to 50% of undergraduate and graduate degree programs and English and Spanish language courses. We also have an agreement with around 40 educational institutions, including universities and language schools, which grant discounts of between 10% and 30% for our employees who are looking for professional development.

For the fourth year in a row, we held the Self-Development Week, which in 2018 got a makeover and changed its name to #VivoAprendendo. The program offered employees courses on current topics such as: digital mindset, agile culture, lifelong learning, diversity and unconscious biases, among others.

In recognition of the importance of attracting new talent for the sustainability and growth of the business, in 2018 we invested in programs aimed at this audience:

- Young Talents: More than 22,000 people registered for the 32 positions in the company's Trainee program. Increasingly consolidated on the market, our trainee and internship program has been turning into an important source of talent for the company.

We continued to work with the development of leadership, using face-to-face and digital programs aimed at the different levels of our pipeline of Leaders, in an attempt to leverage the results and strengthen the company's culture:

- Corporate Mentoring Program: In 2018 we expanded the program, which included the participation of 150 mentors and 150 mentees, sharing knowledge, exchanging experiences and expanding networking, resulting in a true two-way growth process.
- Leadership Academy: promotes culture and organizational strategy and is aimed at training and developing leaders and potential managers by means of face-to-face and online training actions. In 2018, 120 face-to-face classes were held on 21 different topics at 9 locations throughout Brazil, with a total of 2,088 participations. In October, we launched the Online Leaders Academy Platform, which is open to 100% of the coordinators, section managers and division managers, with a portfolio of 150 courses covering a wide range of content. In 2018, 779 courses were completed.
- Telefónica University (Barcelona): we reinforce our link to the Telefónica Group's global strategy and prepare executives for the challenges of the business through international development programs. In 2018, we sent 277 leaders to the Telefónica University in Barcelona, including Vice-Presidents, Executive Officers, Managers and Coordinators, to take part in 7 different courses.
- Coaching program: an action aimed at the development of executives. In 2018, based on the results of performance assessment, we sent 91 executives for Coaching sessions with renowned consulting firms in the market.

The Performance Assessment is one of the company's main tools for supporting the management of the teams and guiding the employees' development plans. It is aimed at all the company's professionals, including managers. In 2018, for the first time, the Performance Assessment was extended to the customer service, sales and technical teams, which up until this point were subject to separate assessments. The 2018 cycle got underway in the second half of the year, with the participation of 33,196 employees and will be completed in February 2019, with the final assessment.

With a focus on the strategy and sustainability of business, we undertook the Management Review, which is aimed at identifying employees with the potential to assume a more complex position and mapping out those who will take over executive positions in the future. In 2018, 95 positions were analyzed, including among others Vice-Presidents and Executive Officers. This process included an analysis of performance and potential – with the support of the Learning Agility methodology - and readiness level.

5.4. Benefits

In 2018, the Company invested more than R\$843 million in benefits for its professionals, with highlight going to the following items:

- R\$318.2 million invested in health and quality of life;
- R\$58.5 million invested in private pension plans for the professionals, in which the Company also matches an established percentage.

The Company has an area focused on Health and Quality of Life, which operates throughout the country with twenty outpatient clinics in the country's main capitals, providing assistance to the employees in their workplace. These clinics are well equipped with a medical and nursing team that provides integrated assistance.

Telefónica Brasil has a Quality of Life Program based on three pillars (Caring, Welcoming and Our Club), which is in alignment with the global Feel-Good program. In 2018, it carried out actions such as medical care with general practitioners, gynecologists and obstetricians in the in-company outpatient clinics, the Feel Good Nutrition Program with nutritional assistance, the Feel Good 'Cuca Fresca' Program with psychological assistance, the Flu Vaccination Campaign, and the Physiotherapy Program with care focused on functional health and treatment, among others.

Occupational Health and Safety

The Company maintains an area dedicated to Occupational Health and Safety which is focused on safety, prevention of occupational accidents and the performance of occupational health tests. It operates throughout Brazil with the presence of professionals (Doctors, Engineers and Nursing and Safety Technicians) who are properly qualified in Occupational Medicine and Safety.

Telefónica Brasil invests in the knowledge of its employees by means of specific training courses in the area of Occupational Safety with the aim of creating a preventive vision, so that each operational employee understands and assumes responsibility for his/her own functions in the prevention of accidents, in an attempt to continuously improve working conditions.

In the quest for development of a safe behavior on the part of employees engaged in operational activities, in 2018 roughly 32 thousand hours were devoted to the DSS - Weekly Safety Dialogue, with topics focused on the field operating team, including: Installers, Repairers, Assistants, Telecom Technicians, Cabling Professionals, and OSP Officials with direct involvement of the field management.

In 2018, the Occupational Safety was strongly engaged in SST for the Management of Allies, with 358 safety inspections in relation to field activities. The number of companies listed in the occupational accident indicators report showed a 20% increase and our actions included strengthening sound safety practices among our service providers.

Under the topic **Safety and Quality of Life Connected with You**, in 2018 the company held the SIPAT (Internal Occupational Accident Prevention Week) in compliance with Regulatory Standard No. 5. It integrated all the regional offices in Brazil, adding up to a total of 23,686 employees involved in health, safety and well-being actions.

We established all the necessary processes to prevent occupational accidents, injuries and diseases by means of strict compliance with regulatory matters, training and preventive management of occupational risks. We encourage all employees to take care of health and safety, including the people around them.

5.5. Employee Profile

In December 2018 the Company had 32,638 employees (33,622 employees in December 2017):

Breakdown by Macro Function

6. Sustainability

Applying sustainability in our strategy allows us to identify the opportunities offered by new technologies for creating value for society and for effectively managing the impacts that are inherent to our activities, making our business ever more responsible.

The conduction of our business establishes targets to be achieved by 2021, which implies acting in an upright and transparent way and making a commitment to sustainable development, in order to generate a positive social impact and create shared value, with a vision of sustainability that puts people at the very center of what we do and reduces the negative impacts on our operation.

For this reason, the Telefónica Group developed its Global Responsible Business Plan, which is based on seven pillars:

- Promise to the Customer and Digital Trust
- Sustainability Management in the Supply Chain
- Diversity and Talent Management
- Environment
- Sustainable innovation
- Contribution to Progress
- Ethics

In line with these commitments, the most relevant and priority topics in our business are addressed within Telefônica Brasil through projects and goals that involve all of the Company's areas, within the scope of our Responsible Business Plan.

Topics such as climate change, diversity and digital trust, among others, are becoming increasingly important to society and can change the way we relate to our customers and other stakeholders within our value chain.

This is why this year we launched the Telefónica Group's Digital Manifesto, which is a pioneering landmark not just for the telecommunications industry, but also for industry 4.0 and for society as a whole. In addition, we were the first Brazilian telecommunications company to launch a Privacy Center for discussion and clarification regarding this matter. According to a survey carried out by Internet Lab, an independent center for direct interdisciplinary research in law and technology, in April 2018, we are the Brazilian operator that most publicly commits itself to the privacy of the data of its internet users, whether on fixed broadband or on mobile internet.

We actively participate in, and are signatories to, other important initiatives that also contribute to sustainable development. These include the following:

Global Compact

A United Nations (UN) initiative to encourage companies to adopt corporate social responsibility and sustainability policies by adopting ten principles related to human rights, labor, the environment and corruption.

GHG Protocol

This encourages the corporate culture to draw up and publish inventories of greenhouse gas emissions (GHG). We have published our inventory on an annual basis since 2010, and for the last five years have been awarded the Gold Seal.

Carbon Disclosure Project (CDP)

This project gathers companies' global environmental performance indicators in order to help investors with their decision-making processes. It supports organizations all over the world in measuring carbon emissions and effectively reducing them, encouraging an economy that is more focused on a more rational use of energy and renewable matrices.

Public Commitment to Diversity

Women's Empowerment Principles: In 2016, we signed the commitment created by UN Women and by the Global Compact, which lays down seven principles that help companies incorporate values and practices aimed at gender equality.

Women's Movement 360: an association of companies committed to promoting gender equality and increasing women's participation in the corporate environment, in the communities and in the value chain.

Forum of Companies and LGBT+ Rights: this is aimed at influencing the business environment and society with regard to this topic.

Corporate Social Inclusion Network: we have signed up to the Pact for Inclusion of the Business Network for Social Inclusion (locally REIS), a movement that operates in the promotion and employability of employees with disabilities.

Business Coalition for Racial and Gender Equality: exchange of experiences and encouragement for the implementation and improvement of public policies and business practices in order to overcome gender and racial discrimination in organizations.

In addition, as a parameter of continuous improvement and incorporation of sustainability in strategic processes, we use the model suggested by the Corporate Sustainability Index (ISE), with the indicators being monitored by the Company.

In 2018, Telefónica Brasil was included in the main domestic and international sustainability rankings. For the seventh year in a row, the company was included in B3's ISE (Corporate

Sustainability Index) portfolio, which brings together the shares of 30 companies recognized for their sustainability performance. Once again, we were included in the Sustainability Guide of EXAME magazine, which is one of the country's largest surveys of corporate sustainability and highlights 77 model companies in 19 sectors of the economy. In addition, we retained our position as the only Brazilian telecommunications company included in the Best Emerging Markets Performers Ranking by VIGEO EIRIS, a European Sustainability assessment organization that measures the performance of companies using environmental, social and governance (ESG) indicators.

Once a year, the Company publishes its Annual Sustainability Report, which is prepared in accordance with the standards of the Global Reporting Initiative (GRI). The report is available at the Sustainability area of our website www.telefonica.com.br or on the Investor Relations website www.telefonica.com.br/ri.

6.1. Private social investment

The Telefônica Vivo Foundation, which is responsible for Vivo's social projects, believes in educational innovation as a way of inspiring new paths for Brazil's development based on education. The Foundation develops projects in the areas of education, social entrepreneurship and voluntary work. Present in Brazil since 1999, the Foundation is part of a network that consists of 17 other Telefônica Group foundations located in Europe and Latin America. In 2018, we benefitted roughly 1.7 million people and invested R\$60 million.

To find out more about Telefônica Vivo Foundation, visit: www.fundacaotelefonica.org.br

7. Operational Performance

At the end of 2018, the Company totaled 73,160 thousand mobile accesses, reaffirming its leadership position with a 31.9% market share. The postpaid customer base accounted for 55.2% of the mobile base at the end of 2018, 6.2 p.p. growth against 2017.

In relation to fixed services, the Company ended the year 2018 with 22,029 thousand revenue-generating units, a 3.6% against the previous year, mainly on account of the maturity of fixed voice service and the more selective strategy for the pay-TV service.

Broadband - totaled 7,458 thousand customers at the end of 2018, a growth of 0.3% or 26 thousand net additions in relation to 2017. Fiber accesses (FTTH) registered a total of 1,893 thousand customers, which translates into an annual growth of 46.8%. The number of ultra-broadband customers (FTTx) now accounts for 66.9% of total broadband accesses.

Lines in Service - totaled 13,005 thousand customers in 2018, a 6.0% decrease in relation to 2017, due to the maturity of the residential fixed voice service, as well as the impact of the macroeconomic scenario on the corporate business.

Pay-TV - totaled 1,567 thousand customers in 2018, a 1.3% reduction against 2017, reflecting the Company's selectivity with a focus on higher value customers. IPTV totaled 579 thousand users, which translates into an annual growth of 52.1%.

As a result, the Company ended 2018 with 95,189 thousand customers, a 2.7% drop in relation to the previous year, due to disconnections by fixed voice customers and prepaid mobile customers.

8. Financial Performance

8.1. Net Operating Revenue

In 2018, the Company posted consolidated net operating revenue of R\$43,463 million, up by 0.6% over 2017, when we recorded net revenue of R\$43,207 million. This growth was due to greater revenues from data and mobile digital services, in addition to fixed broadband, but was partially offset by the drop in revenues from fixed-to-mobile calls and by the lower interconnection tariffs, both fixed and mobile, as determined by the regulator.

8.2. Operating Costs and Expenses

Operating costs, excluding depreciation and amortization, totaled R\$25,638 million in 2018, which represents a 12.0% drop against the same period of the previous year (R\$28,721 million), and below the 3.7% inflation for the period. This reduction is mainly explained by the Company's intense digitalization process, which resulted in lower printing and postage costs due to its adoption of e-billing, the reduction of costs with commission on account of the growth in e-commerce of products, services and reloads, lower customer service costs due to greater penetration of the *Meu Vivo* app, as well as lower costs for services provided due to the decrease in fixed and mobile interconnection tariffs as from in February 2018, being partially offset by the higher cost of goods sold, reflecting the strategy adopted during the year of focusing on the sale of terminals and equipment with margin. In addition, the Company registered a non-recurring effect related to a favorable judicial decision in connection with tax contingency.

8.3. Operating Income before Net Financial Expenses and Equity Pick-Up

Operating income before net financial expenses and consolidated equity pick-up increased by 42.6%, up from R\$6,632 million in 2017 to R\$9,456 million in 2018, mainly on account of improved operating performance.

8.4. EBITDA

EBITDA totaled R\$17,825 million in 2018, a 23.0% increase against the amount of R\$14,486 million in 2017. In turn, EBITDA Margin in 2018 was 41.0%, a 7.5% p.p. increase in relation to the 33.5% margin recorded in the previous year. This result was due to the higher revenues from mobile and ultra-broadband services, as well as the efficiency and digitization measures adopted by the Company and a non-recurring effect in connection with a favorable judicial decision regarding tax contingency. Excluding these effects, the recurring EBITDA margin in 2018 was 35.8%, a 1.9 p.p. increase against the 33.9% recurring EBITDA margin in 2017.

In millions of *Reais* – Consolidated

	2018	2017
Operating income before financial income and expenses and equity pick-up (*)	9,456.2	6,632.2
Depreciation and amortization expenses		
In costs of services provided	6,487.9	5,963.1
In expenses for sales of services	1,352.6	1,433.3
In general and administrative expenses	528.1	457.3
EBITDA	17,824.8	14,485.9
EBITDA Margin		
a) EBITDA	17,824.8	14,485.9
b) Net operating revenue (*)	43,462.7	43,206.8
a) / b)	41.0%	33.5%
Recurring EBITDA margin	35.8%	33.9%

(*) See income statements.

8.5. Indebtedness and Financial Result

In millions of Reais – Consolidated	2018	2017
Loans and Financing	(2,499.8)	(3.494.9)
Debentures	(3,173.9)	(4.520.8)
GVT Contingent Consideration	(465.7)	(446.1)
Total indebtedness	(6,139.4)	(8.461.8)
Derivatives transactions	56.1	143.8
Indebtedness after derivatives	(6,083.3)	(8.318.1)

The Company ended the year 2018 with gross debt of R\$6,083 million (R\$8,318 million in 2017) or 8.5% of shareholders' equity (12.0% in 2017). Funding is 1.6% denominated in foreign currency (US dollar and a basket of currencies - UMBNDES) and 98.4% denominated in domestic currency. The total amount of foreign currency denominated debt is covered by hedge transactions.

8.6. Income for the Year

The consolidated results for the year, in accordance with the requirements of Brazilian corporate law, shows Net Income of R\$8,928 million in 2018 (R\$4,609 million in 2017), which translates into a 93.7% increase over the same period in 2017. Telefónica Brasil's net margin in 2018 was 20.5% (10.7% in 2017).

In millions of Reais	2018	2017
a) Net Income for the year (*)	8,928.3	4,608.8
b) Net operating revenue (*)	43,462.7	43,206.8
a) / b)	20.5%	10.7%

(*) See income statements.

8.7. Investments

In 2018, the Company invested R\$8,999.9 million, a 2.5% increase against the previous year (R\$7,998.3 million), mainly aimed at growth and quality of our services, enabling us to provide an ever-better service to a society that is becoming increasingly connected, and supporting growth in the demand for data by our customers, both in fixed as well as mobile services, and in the corporate market.

In 2018, we continued to expand our fixed services by providing fiber services (FTTH) in an additional 30 cities and building roughly 2 million new homes passed.

On the mobile front, we speeded up the installation of 4G, achieving the milestone of 3,100 municipalities with this technology. In addition, we have improved signal quality in a number of regions and invested significant resources in maintenance actions (both proactive and reactive).

Telefônica Brasil also invested in integrating the systems of its fixed and mobile business, as well as improving its business support infrastructure (systems, points of sale and service). In 2018, we continued to invest in improving operating systems and in expanding and advancing the consolidation of data centers, with highlight going to the transformation of the billing environment and the Big Data projects, which will provide support for the rollout of new products and services, focusing primarily on customers' experience.

9. Capital Market

Telefónica Brasil's common (ON) and preferred (PN) shares are traded on the B3 under the ticker symbols VIVT3 and VIVT4, respectively. The Company also has ADRs traded on the NYSE, under the ticker symbol VIV.

The VIVT3 and VIVT4 shares ended the year 2018 at R\$41.29 and R\$46.23, respectively, which translates into an annual appreciation of 0.2% and a depreciation of 4.9%, in relation to the 15.0% annual increase in the Bovespa Index. The ADRs ended the year at US\$11.93, which denotes a 19.4% depreciation in the period, against the 5.6% depreciation in the Dow Jones Index.

The average daily financial volumes posted by the VIVT3 and VIVT4 shares during the year was R\$1,196 thousand and R\$88,668 thousand, respectively. Over the same period, the average daily volume of ADRs was US\$20,157 thousand.

The chart below shows the performance of the shares over the last year:

9.1. Shareholders' remuneration policy

Under its bylaws, the Company is required to distribute a minimum of 25% of its adjusted net income for the year as dividends, while the holders of preferred shares are guaranteed an amount 10% greater than that attributed to each common share.

Interest on shareholders' equity and dividends declared by Telefónica Brasil based on income for 2018 and the reversal of the Special Reserve set up in 2018 for expansion and modernization, based on income for 2017, totaled R\$7.0 billion, which translates into a payout ratio of 78.6%, as detailed in the table below:

9.2. Shareholding Position

9.3. Corporate Structure

10. Outlook

A resumption of economic growth is likely to contribute to a recovery in the telecommunications sector. The search for differentiated products and services, quality delivery and a better customer

experience should guide the industry's trends. In addition to traditional telecommunications services, operators should strengthen their positions in the digital services market and distribute new products and services, such as Security, Cloud, IoT, Big Data and OTTs. Within this context, Telefónica Brasil is well structured to maintain its leadership position in the Brazilian telecommunications market and continue to serve its more than 95 million customers. Relevance, Revenue, Return, Responsibility and Motivation make up the Company's strategic pillars and enable it to evolve as the country's best platform in terms of connectivity and experience.

EXECUTIVE BOARD

Christian Mauad Gebara

Chief Executive Officer

David Melcon Sanchez-Friera

Chief Financial and Investor Relations Officer

Breno Rodrigo Pacheco de Oliveira

General-Secretary and Legal Counsel

Carlos Cesar Mazur

Accountant – CRC – 1PR-028067

OPINION OF THE AUDIT AND CONTROL COMMITTEE

The members of the Audit and Control Committee of Telefónica Brasil S.A. ("Company" or "Telefônica Brasil"), exercising their duties and legal responsibilities, have examined and analyzed the Company's Financial Statements, together with the Independent Auditors' Report and the Annual Management's Report for the year ended December 31, 2018 ("2018 Annual Financial Statements"), as well as the Proposed Capital Budget for the year 2019, including 2018 budget implementation report and the Proposed Allocation of Income for 2018, and, taking into account the information provided by Telefónica Brasil's Executive Board and the Independent Auditors PricewaterhouseCoopers, vote unanimously in favor of the aforesaid documents, as well as declaring that they fairly represent, in all material aspects, the Company's equity and financial position. Accordingly, they recommend their approval by Telefónica Brasil's Board of Directors and their forwarding to the Annual and Extraordinary Shareholders' Meeting, under the terms of the Brazilian Corporate Law.

São Paulo, February 15, 2019.

José María Del Rey Osorio

Chairman of the Audit and Control Committee

Antonio Gonçalves de Oliveira

Member of the Audit and Control Committee

Narcís Serra

OPINION OF THE BOARD OF DIRECTORS

The members of the Board of Directors of Telefônica Brasil S.A. (“Company” or “Telefônica Brasil”), exercising their duties and legal responsibilities, as set forth in the Brazilian Corporate Law and in the company’s Bylaws, have examined and analyzed the Company’s Financial Statements, together with the Independent Auditors’ Report and the Annual Management’s Report for the year ended December 31, 2018 (“2018 Annual Financial Statements”), as well as the Proposed Capital Budget for the year 2019, including 2018 budget implementation report and the Proposed Allocation of Income for 2017, and, taking into account the information provided by Telefônica Brasil’s Executive Board and the Independent Auditors PricewaterhouseCoopers, and the favorable opinion of the Fiscal Council members and from the members of the Audit and Control Committee, vote unanimously in favor of the aforesaid documents, as well as declaring that they fairly represent, in all material aspects, the Company’s equity and financial position. Accordingly, they determine that the aforesaid documents be forwarded for approval by the Annual and Extraordinary Shareholders’ Meeting, under the terms of the Brazilian Corporate Law.

São Paulo, February 15, 2019

Eduardo Navarro de Carvalho
Chairman of the Board of Directors

Luiz Fernando Furlan
Member of the Board of Directors

Julio Esteban Linares Lopez
Member of the Board of Directors

Francisco Javier de Paz Mancho
Member of the Board of Directors

Antonio Gonçalves de Oliveira
Member of the Board of Directors

Christian Mauad Gebara
Member of the Board of Directors

Antonio Carlos Valente da Silva
Member of the Board of Directors

Sonia Julia Sulzbeck Villalobos
Member of the Board of Directors

José María Del Rey Osorio
Member of the Board of Directors

Roberto Oliveira de Lima
Member of the Board of Directors

Luis Miguel Gilpérez Lopez
Member of the Board of Directors

Narcís Serra
Member of the Board of Directors

OPINION OF THE FISCAL COUNCIL

The members of the Fiscal Council of Telefônica Brasil S.A. ("Company" or "Telefônica Brasil"), exercising their duties and legal responsibilities, as provided for in article 163 of the Brazilian Corporate Law, have examined and analyzed the Company's Financial Statements, together with the Independent Auditors' Report and the Annual Management's Report for the year ended December 31, 2018 ("2018 Annual Financial Statements"), as well as the Proposed Capital Budget for the year 2019, including 2018 budget implementation report and the Proposed Allocation of Income for 2018, and, taking into account the information provided by Telefônica Brasil's Executive Board and the Independent Auditors PricewaterhouseCoopers, vote unanimously in favor of the aforesaid documents, as well as declaring that they fairly represent, in all material aspects, the Company's equity and financial position. Accordingly, they determine that the aforesaid documents be submitted to the Annual and Extraordinary Shareholders' Meeting, under the terms of the Brazilian Corporate Law.

São Paulo, February 15, 2019.

Flavio Stamm
Permanent Member of the
Fiscal Council

Cremênio Medola Netto
Permanent Member of the
Fiscal Council

Charles Edwards Allen
Permanent Member of the
Fiscal Council

Telefônica Brasil S.A.

Consolidated Financial Statements

As at December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Telefônica Brasil S.A and its subsidiaries

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet of Telefônica Brasil S.A. and its subsidiaries (“the Company”) as of December 31, 2018 and December 31, 2017, and the related consolidated statements of income, other comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and December 31, 2017, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and December 31, 2017, and the results of its operations and its cash flows for the years ended December 31, 2018 and December 31, 2017 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018 based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Item 15 - Controls and Procedures - Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

São Paulo Brazil

February 21, 2019

We have served as the Company's auditor since 2017.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of

Telefônica Brasil S.A.

We have audited the accompanying consolidated statements of income, comprehensive income, shareholders' equity, and cash flows of Telefônica Brasil S.A. (the "Company") and subsidiaries for year ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations of Telefônica Brasil S.A. and subsidiaries and their cash flows for the year ended December 31, 2016, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

/s/ ERNST & YOUNG Auditores Independentes S.S.

São Paulo, Brazil

February 22, 2017

TELEFÔNICA BRASIL S.A.**Consolidated Balance Sheets****At December 31, 2018 and 2017****(In thousands of reais)**

ASSETS	Note	12.31.18	12.31.17
Current assets		18,362,992	16,731,666
Cash and cash equivalents	3	3,381,328	4,050,338
Trade accounts receivable	4	8,304,382	8,588,466
Inventories	5	462,053	348,755
Income and social contribution taxes recoverable	7	274,589	505,535
Taxes, charges and contributions recoverable	8	4,674,218	2,058,455
Judicial deposits and garnishments	9	313,007	324,638
Prepaid expenses	6	581,743	446,439
Derivative financial instruments	31	69,065	87,643
Other assets	10	302,607	321,397
Non-current assets		84,198,326	84,651,169
Short-term investments pledged as collateral		76,934	81,486
Trade accounts receivable	4	426,252	273,888
Taxes, charges and contributions recoverable	8	3,222,262	743,285
Deferred taxes	7	230,097	371,408
Judicial deposits and garnishments	9	3,597,007	6,339,167
Prepaid expenses	6	134,232	23,116
Derivative financial instruments	31	26,468	76,762
Other assets	10	47,105	88,935
Investments	11	101,657	98,902
Property, plant and equipment	12	34,115,327	33,222,316
Intangible assets	13	42,220,985	43,331,904
TOTAL ASSETS		102,561,318	101,382,835

The accompanying notes are an integral part of these Consolidated Financial Statements.

TELEFÔNICA BRASIL S.A.**Consolidated Balance Sheets****At December 31, 2018 and 2017****(In thousands of reais)**

LIABILITIES AND EQUITY	Note	12.31.18	12.31.17
Current liabilities		17,160,820	17,862,531
Personnel, social charges and benefits	15	782,630	723,380
Trade accounts payable	16	7,642,782	7,447,100
Income and social contribution taxes payable	7	12,009	4,479
Taxes, charges and contributions payable	17	1,797,965	1,726,836
Dividends and interest on equity	18	4,172,916	2,396,116
Provisions and contingencies	19	377,929	1,434,911
Deferred income	21	525,509	372,561
Loans, financing and debentures	20	1,464,166	3,033,441
Derivative financial instruments	31	16,538	5,239
Other liabilities	22	368,376	718,468
Non-current liabilities		13,793,471	14,058,946
Personnel, social charges and benefits	15	11,903	23,284
Taxes, charges and contributions payable	17	39,245	49,448
Deferred taxes	7	1,982,952	709,325
Provisions and contingencies	19	5,881,396	6,709,839
Deferred income	21	250,526	350,637
Loans, financing and debentures	20	4,675,271	5,428,400
Derivative financial instruments	31	22,845	15,412
Other liabilities	22	929,333	772,601
TOTAL LIABILITIES		30,954,291	31,921,477
Equity		71,607,027	69,461,358
Capital	23	63,571,416	63,571,416
Capital reserves	23	1,213,532	1,213,522
Income reserves	23	4,324,170	2,463,228
Other comprehensive income accumulated	23	29,225	21,328
Additional proposed dividends	23	2,468,684	2,191,864
TOTAL LIABILITIES AND EQUITY		102,561,318	101,382,835

The accompanying notes are an integral part of these Consolidated Financial Statements.

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TELEFÔNICA BRASIL S.A.**Consolidated Statements of Income****Years ended December 31, 2018, 2017 and 2016****(In thousands of reais, except earnings per share)**

	Note	2018	2017	2016
Net operating revenue	24	43,462,740	43,206,832	42,508,459
Cost of sales	25	(21,025,767)	(20,272,530)	(20,823,014)
Gross profit		22,436,973	22,934,302	21,685,445
Operating income (expenses)		(12,980,789)	(16,302,065)	(15,317,426)
Selling expenses	25	(12,832,741)	(13,136,474)	(12,455,366)
General and administrative expenses	25	(2,598,970)	(2,443,105)	(2,793,386)
Other operating income	26	4,077,003	464,182	968,479
Other operating expenses	26	(1,626,081)	(1,186,668)	(1,037,153)
Operating income		9,456,184	6,632,237	6,368,019
Financial income	27	4,112,640	1,755,958	2,781,359
Financial expenses	27	(2,285,487)	(2,659,002)	(4,015,900)
Equity pickup	11	(5,847)	1,580	1,244
Income before taxes		11,277,490	5,730,773	5,134,722
Income and social contribution taxes	7	(2,349,232)	(1,121,983)	(1,049,480)
Net income for the year		8,928,258	4,608,790	4,085,242
Basic and diluted earnings per common share (in R\$)	23	4.96	2.56	2.27
Basic and diluted earnings per preferred share (in R\$)	23	5.45	2.82	2.50

The accompanying notes are an integral part of these Consolidated Financial Statements.

TELEFÔNICA BRASIL S.A.**Consolidated Statements of Other Comprehensive Income**

Years ended December 31, 2018, 2017 and 2016

(In thousands of reais)

	Note	2018	2017	2016
Net income for the year		8,928,258	4,608,790	4,085,242
Other comprehensive income (losses) that may be reclassified into income (losses) in subsequent periods		8,309	9,644	(14,062)
Gains (losses) on derivative financial instruments	31	(2,450)	(2,417)	4,803
Taxes	7	832	822	(1,633)
Cumulative Translation Adjustments (CTA) on transactions in foreign currency	11	9,927	11,239	(17,232)
Other comprehensive income (losses) not to be reclassified into income (losses) in subsequent periods		(63,151)	(113,588)	(156,211)
Unrealized gains (losses) on financial assets at fair value through other comprehensive income	11	(625)	338	83
Actuarial losses and limitation effect of the assets of surplus plan	30	(93,491)	(171,296)	(236,767)
Taxes	7	30,965	57,370	80,473
Other comprehensive losses		(54,842)	(103,944)	(170,273)
Total comprehensive income for the year		8,873,416	4,504,846	3,914,969

The accompanying notes are an integral part of these Consolidated Financial Statements.

TELEFÔNICA BRASIL S.A.**Consolidated Statements of Changes in Equity**

Years ended December 31, 2018, 2017 and 2016

(In thousands of reais)

	Capital	Capital reserves		Treasury shares	Income reserves			Retained earnings	F a d
		Special goodwill reserve	Other capital reserves		Legal reserve	Tax incentive reserve	Expansion and modernization reserve		
Balances at December 31, 2015	63,571,416	63,074	1,297,295	(87,805)	1,703,643	6,928	700,000	-	1
Payment of additional dividend for 2015	-	-	-	-	-	-	-	-	(
Prescribed equity instruments, including unclaimed dividends and interest on equity	-	-	-	-	-	-	-	221,559	-
Preferred shares delivered referring to the judicial process of expansion plan	-	-	2	15	-	-	-	-	-
DIPJ adjustment - Tax incentives	-	-	-	-	-	10,141	-	(10,141)	-
Other comprehensive income	-	-	-	-	-	-	-	(156,266)	-
Net income for the year	-	-	-	-	-	-	-	4,085,242	-
Allocation of income:									
Legal reserve	-	-	-	-	204,262	-	-	(204,262)	-
	-	-	-	-	-	-	-	(2,172,145)	-

Interim interest on equity									
Reversal of expansion and Modernization Reserve	-	-	-	-	-	-	(700,000)	700,000	-
Expansion and Modernization Reserve	-	-	-	-	-	-	550,000	(550,000)	-
Additional proposed dividends	-	-	-	-	-	-	-	(1,913,987)	1
Balances at December 31, 2016	63,571,416	63,074	1,297,297	(87,790)	1,907,905	17,069	550,000	(0)	1
Payment of additional dividend for 2016	-	-	-	-	-	-	-	-	(
Unclaimed dividends and interest on equity	-	-	-	-	-	-	-	101,778	-
Repurchase of preferred shares	-	-	-	(32	-	-	-	-	-
Preferred shares delivered referring to the judicial process of expansion plan	-	-	-	2	-	-	-	-	-
DIPJ adjustment - Tax incentives	-	-	-	-	-	10,815	-	(10,815)	-
Other comprehensive income	-	-	-	-	-	-	-	(113,811)	-
Equity transactions (Note 1 c)	-	-	(59,029)	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-	-	4,608,790	-
Allocation of income:									
Legal reserve	-	-	-	-	230,439	-	-	(230,439)	-
Interim interest on equity	-	-	-	-	-	-	-	(2,416,639)	-
Reversal of expansion and	-	-	-	-	-	-	(550,000)	550,000)	-

Modernization Reserve										
Expansion and Modernization Reserve	-	-	-	-	-	-	297,000	(297,000)	-	-
Additional proposed dividends	-	-	-	-	-	-	-	(2,191,864)	2	2
Balances at December 31, 2017	63,571,416	63,074	1,238,268	(87,820)	2,138,344	27,884	297,000	-	2	2
Effects of the initial adoption of IFRS 9 and 15, net of taxes	-	-	-	-	-	-	-	(138,663)	-	-
Payment of additional dividend for 2017	-	-	-	-	-	-	-	-	((
Unclaimed dividends and interest on equity	-	-	-	-	-	-	-	152,770	-	-
DIPJ adjustment - Tax incentives	-	-	-	-	-	11,529	-	(11,529)	-	-
Other comprehensive income	-	-	-	-	-	-	-	(62,739)	-	-
Equity transactions	-	-	10	-	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-	-	8,928,258	-	-
Allocation of income:										
Legal reserve	-	-	-	-	446,413	-	-	(446,413)	-	-
Interim interest on equity	-	-	-	-	-	-	-	(4,550,000)	-	-
Reversal of expansion and Modernization Reserve	-	-	-	-	-	-	(297,000)	297,000	-	-
Expansion and Modernization Reserve	-	-	-	-	-	-	1,700,000	(1,700,000)	-	-
Additional proposed dividends	-	-	-	-	-	-	-	(2,468,684)	2	2
Balances at December 31, 2018	63,571,416	63,074	1,238,278	(87,820)	2,584,757	39,413	1,700,000	0	2	2

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TELEFÔNICA BRASIL S.A.

Consolidated Statements of Cash Flows

Years ended December 31, 2018, 2017 and 2016

(In thousands in reais)

	2018	2017	2016
<u>Cash flows from operating activities</u>			
Income before taxes	11,277,490	5,730,773	5,134,722
Adjustment for:			
Depreciation and amortization	8,368,623	7,853,734	7,654,406
Foreign exchange on loans and derivative financial instruments	30,664	57,832	75,075
Monetary losses	801,912	543,852	620,570
Equity pickup	5,847	(1,580)	(1,244)
Losses (gains) on write-off/sale of assets	(63,881)	(74,337)	(451,215)
Provision for impairment - accounts receivable	1,533,660	1,481,015	1,348,221
Change in liability provisions	(80,333)	(93,479)	273,664
Write-off and reversals for impairment - inventories	(45,223)	(45,089)	(36,898)
Pension plans and other post-retirement benefits	52,885	31,511	5,243
Provisions for tax, civil, labor and regulatory contingencies	1,098,251	999,419	985,176
Interest expense	497,797	926,220	1,049,553
Other	(14,089)	(8,737)	(72,610)
Changes in assets and liabilities			
Trade accounts receivable	(1,603,002)	(1,274,181)	(1,739,550)
Inventories	(68,127)	106,393	230,116
Taxes recoverable	(5,849,648)	(330,398)	(823,360)
Prepaid expenses	41,166	11,051	105,845
Other assets	(20,225)	82,109	23,202
Personnel, social charges and benefits	47,870	(42,830)	53,005
Trade accounts payable	1,056,817	121,577	(707,998)
Taxes, charges and contributions	223,059	180,915	601,970
Provisions for tax, civil, labor and regulatory contingencies	(3,928,925)	(1,592,860)	(1,108,045)
Other liabilities	(249,571)	(472,771)	(284,465)
	1,835,527	8,459,366	7,800,661
Cash generated from operations	13,113,017	14,190,139	12,935,383

Interest paid	(494,931)	(859,586)	(926,223)
Income and social contribution taxes paid	(676,659)	(689,493)	(568,335)
Net cash (used in) generated by operating activities	11,941,427	12,641,060	11,440,825
<u>Cash flows from investing activities</u>			
Additions to PP&E, intangible assets and others	(8,517,458)	(8,367,660)	(7,470,869)
Cash received from sale of PP&E items	9,053	20,672	778,819
Cash paid for acquisition of companies, net of cash acquired	-	(206,649)	-
Cash received from sale of investments	10	31,804	-
Redemption of (increase in) judicial deposits	2,832,062	83,500	(202,525)
Dividends and interest on equity received	-	-	3
Other	-	111	-
Net cash (used in) generated by investing activities	(5,676,333)	(8,438,222)	(6,894,572)
<u>Cash flows from financing activities</u>			
Payment of loans, financing and debentures	(2,893,219)	(4,485,495)	(2,171,100)
Loans and financing raised	-	3,055,876	466,629
Received of derivative financial instruments	181,117	107,846	132,410
Payment of derivative financial instruments	(85,124)	(267,254)	(239,379)
Payment for reverse split of shares	-	-	(164)
Dividend and interest on equity paid	(4,136,878)	(3,668,551)	(2,966,384)
Treasury shares	-	(32)	-
Net cash (used in) generated by financing activities	(6,934,104)	(5,257,610)	(4,777,988)
Increase (decrease) in cash and cash equivalents	(669,010)	(1,054,772)	(231,735)
Cash and cash equivalents at beginning of the year	4,050,338	5,105,110	5,336,845
Cash and cash equivalents at end of the year	3,381,328	4,050,338	5,105,110

Telefônica Brasil S. A.

Notes to Consolidated Financial Statements

Years ended December 31, 2018, 2017 and 2016

(In thousands of reais, unless otherwise stated)

1) OPERATIONS

a) Background information

Telefônica Brasil S.A. (the “Company” or “Telefônica Brasil”) is a publicly-held corporation with the corporate purpose of operating telecommunications services; development of activities necessary or useful for the execution of those services, in accordance with the concessions, authorizations and permissions granted to them; exploitation of value-added services; operation of integrated solutions, management and provision of services related to: (i) data center, including hosting and colocation; (ii) storage, processing and management of data, information, texts, images, videos, applications and information systems and similar; (iii) information technology; (iv) information and communication security; (v) telecommunications; and (vi) electronic security systems; licensing and sublicensing of software of any nature, among others.

The Company, headquartered at Avenida Engenheiro Luiz Carlos Berrini, No. 1376, in the city and state of São Paulo, Brazil, is a member of the Telefónica Group (“Group”), with headquarters in Spain and present in several countries of Europe and Latin America.

At December 31, 2018 and 2017, Telefónica S.A. (“Telefónica”), the Group holding company, held total direct and indirect interest in the Company of 73.58% (Note 23).

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

b) Operations

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

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

In accordance with the STFC service concession agreement, in every two years, during the agreement's 20-year term, valid until December 31, 2025, the Company shall pay a fee equivalent to 2% of its prior-year STFC revenue, net of applicable taxes and social contribution taxes (Note 22).

In accordance with the authorization terms for the usage of radio frequencies associated with SMP, in every two years after the first renewal of these agreements, the Company shall pay a fee equivalent to 2% of its prior-year SMP revenue, net of applicable taxes and social contribution taxes (Note 22), and in the 15th year the Company will pay 1% of its prior-year revenue. The calculation will consider the net revenue from the application of Basic and Alternative Services Plans. These agreements can be extended only once for a term of 15 years.

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

The terms of authorization for the use of the radio frequency bands are granted based on the results obtained in the respective radio frequency auction conducted by ANATEL.

The following is a summary of the authorizations for use of radio frequency bands, granted to the Company, according to the terms of authorization to operate the service in each region.

Radiofrequency Band (MHz)	Band (MHz)	License Expiration (Year)
450 MHz	14	2027
700 MHz	20	2029
800 MHz	25	2020-2028
900 MHz	5	2020-2023
1800 MHz	20-50	2020-2023
2100 MHz	20-30	2023
2500 MHz	40-60	2027-2031

c) Corporate events that occurred in 2018 and 2017

c.1) Corporate Restructuring - 2018

At the Extraordinary General Meeting ("AGE") held on November 30, 2018, the corporate restructuring was approved, with the merger of the wholly-owned subsidiary Telefônica Data SA ("TData") by the Company, with operational effects as from December 1, 2018.

TData was a subsidiary of the Company based in Brazil, whose purpose was to provide services, including, without limitation, the provision of audio, video, image and text content, applications and the like, exploration of integrated solutions and the provision of value-added services.

TData was the parent company of Telefônica Transportes e Logística Ltda. ("TGLog"), which exploits logistics activity; the administration and operation of general and customs warehouses throughout the national territory, among other logistics activities and of Terra Networks Brasil SA ("Terra Networks"), which provides digital services (value-added services ("SVA") and third parties and carrier billing, as well as mobile channels for sales and relationship) and advertising, with both companies headquartered in Brazil.

The TData merger had the objective of standardizing the rendering of services, simplifying the Group current organizational and corporate structure, and assisting in the integration of the Company's business with TData.

c.2) Acquisition of Terra Networks by Wholly-Owned Subsidiary - 2017

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

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

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

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

2) BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

a) Statement of compliance

The consolidated financial statements were prepared and are presented in accordance with the International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

b) Basis of preparation and presentation

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

The Statement of Cash Flows was prepared in accordance with IAS 7 - Statement of Cash Flows and reflects the changes in cash that occurred in the years presented using the indirect method.

Assets and liabilities are classified as current when it is probable that their realization or settlement will occur in the next 12 months. Otherwise, they are classified and shown as non-current. The only exception relates to the balances of deferred tax assets and liabilities, which are classified and fully shown as non-current.

The Board of Directors authorized the issue of these individual and consolidated financial statements at the meeting held on February 15, 2019.

c) Functional and reporting currency

The Company’s financial statements for the years ended December 31, 2018, 2017 and 2016 are presented in thousands of reais (unless otherwise stated).

The Company’s functional and reporting currency is the Brazilian real. Transactions in foreign currency are translated into Brazilian reais as follows: (i) assets, liabilities and shareholders’ equity (excluding capital stock and capital reserves) are translated at the closing exchange rate on the balance sheet date; (ii)

expenses and revenues are translated at the average exchange rate, except for specific transactions that are converted by the transaction date rate; and (iii) the capital stock and capital reserves are converted by the transaction date rate.

The gains and losses resulting from the conversion of investments abroad are recognized in the statement of comprehensive income. Gains and losses resulting from the translation of monetary assets and liabilities recorded between the exchange rate prevailing at the date of the transaction and the year-end closing (except for the conversion of investments abroad) are recognized in the income statement.

d) Basis of consolidation

The Company holds direct equity interests in subsidiaries and jointly-controlled subsidiaries. Below, we present the main information of the Company's investees.

Investees	Type of investment	Equity interests		Country (Headquarters)	Core activity
		At 12.31.18	At 12.31.17		
Telefônica Data S.A. ("TData")	Subsidiary	-	100.00%	Brazil	Telecommunications
Terra Networks Brasil S.A. ("Terra Networks")	Subsidiary	100.00%	-	Brazil	Telecommunications
Telefônica Transportes e Logística Ltda ("TGLog")	Subsidiary	99.99%	-	Brazil	Transports and logistics
POP Internet Ltda ("POP")	Subsidiary	99.99%	99.99%	Brazil	Internet
Aliança Atlântica Holding B.V. ("Aliança")	Joint venture	50.00%	50.00%	Brazil	Holding of the telecommunications sector
Companhia AIX de Participações ("AIX")	Joint venture	50.00%	50.00%	Holland	Operation of underground telecommunications networks
Companhia ACT de Participações ("ACT")	Joint venture	50.00%	50.00%	Brazil	Technical assistance in telecommunication networks

TData: The Company's direct and wholly-owned subsidiary until November 30, 2018, with headquarters in Brazil, had the purpose of providing various services, including, without limitation, the provision of audio, video, image and text content, applications and the like, to exploitation of integrated solutions and the provision of value-added services. On December 1, 2018, TData was merged into the Company (Note 1 c.1).

Terra Networks: The Company's direct and wholly-owned subsidiary as at December 1, 2018 (Note 1 c.1), with headquarters in Brazil, has the purpose of providing digital services (own value-added services ("VAS") and third parties and carrier billing, as well as mobile channels for sales and relationship) and advertising.

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TGLog: The Company's direct subsidiary as at December 1, 2018 (Note 1 c.1), with its head office in Brazil, has as its object the provision of logistics activities; and the administration and operation of general and customs warehouses throughout the national territory, among other logistics activities.

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

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

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

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

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

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

e) Segment reporting

Business segments are defined as components of a company for which separate financial information is available and regularly assessed by the operational decision-making professional in definition of 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 its 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 its subsidiaries operate in a single operating segment, namely the provision of telecommunications services.

f) Significant accounting practices

Significant and relevant accounting policies for the understanding of the basis of recognition and measurement applied in the preparation of the Company's financial statements are included in the respective notes to which they refer.

The accounting policies adopted in the preparation of the consolidated financial statements for the year ended December 31, 2018 are consistent with those used in the preparation of the consolidated annual financial statements for the year ended December 31, 2017, except for the changes required by the new pronouncements, interpretations and amendments approved for the IASB, which came into effect as of January 1, 2018, as follows:

Standards and amendments

IFRS 9	Financial Instruments
IFRS15	Revenue from Contracts with Customers
Clarifications to IFRS 15	Revenue from Contracts with Customers , issued on April 12, 2016
Amendments to IFRS 2	Classification and Valuation of Share Based Transactions
Improvements to IFRS Standards	2014-2016 Cycle

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

IFRS 9 Financial Instruments

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

IFRS 9 introduced the expected credit loss model as the new model for impairment losses on financial assets. This new model requires that the expected credit losses be recorded from the initial recognition of the financial asset. The Company applied the simplified approach and recorded lifetime expected losses on all trade receivables. Consequently, the application of the new requirements led to an acceleration in the recognition of impairment losses on its financial assets, mainly trade receivables.

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

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

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

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

	Classification by category Classification in accordance with IAS 39	Classification in accordance with IFRS 9
Financial Assets		
Trade accounts receivable	Loans and receivables	Amortized cost
Derivative transactions	Hedges (economic)	Measured at fair value through comprehensive income
Financial Liabilities		
Derivative transactions	Hedges (economic)	Measured at fair value through comprehensive income

The complete information on the Company's financial assets and liabilities is disclosed in Note 31.

IFRS 15 Revenues from Contracts with Customers

IFRS 15 establishes a global structure to determine when to recognize revenue from ordinary activities and by what amount. The basic principle is that an entity must recognize revenue from ordinary activities in a way that represents the transfer of goods or services committed with the customer in exchange for an amount that reflects the consideration that the entity expects to be entitled in exchange for such assets or services.

With the adoption of IFRS 15, for bundled packages that combine multiple wireline, wireless, data, internet or television goods or services, the total revenue is now allocated to each performance obligation based on their standalone selling prices in relation to the total consideration of the package and will be recognized when (or as) the obligation is satisfied, regardless of whether there are undelivered items. Consequently, when bundles include a discount on equipment, there is an increase in revenues recognized from the sale of handsets and other equipment, in detriment of ongoing service revenue over subsequent periods. To the extent that the packages are marketed at a discount, the difference between the revenue from the sale of equipment and the consideration received from the customer upfront is recognized as a *contract asset* in the statement of financial position.

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

Revenue from the sale of handsets to dealers is accounted for at the time of delivery and not at the time of sale to the final customer, as there is no performance obligation after delivery to dealers.

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

The Company adopted, as authorized by the technical pronouncement, the retrospective method modified with the cumulative effect of the initial application recognized as an adjustment to the opening balance of retained earnings on the date of the initial adoption. Therefore, comparative amounts of previous periods will not be restated. To facilitate the understanding and comparability of information, the Company discloses in Note 35 the consolidated income statement for the year then ended December 31, 2018, excluding the effects of adopting IFRS 15.

IFRS 15 also allows the application of certain practical arrangements to facilitate the implementation of the new criteria. The Company has assessed which of them will be adopted in the implementation of the standard in order to reduce complexity in its application.

The main practical expedients that the Company adopted were:

-

Completed contracts: the Company did not apply the standard retrospectively to those contracts that were completed at January 1, 2018.

- Portfolio approach: the Company applied the requirements of the standard to groups of contracts with similar characteristics, since, for the clusters identified, the effects do not differ significantly from an application on a contract by contract basis.
- Financial component: was not be considered significant when the period between the moment when the promised good or service is transferred to a customer and the moment when the customer pays for that good or service is one year or less.
- Costs to obtain a contract: these costs were recognized as an expense when incurred if the amortization period of the asset that the entity would otherwise recognize was one year or less.

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

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

The following table shows the changes in contractual assets and liabilities and incremental costs of the Company (excluding the effects of sales and income taxes).

	Contract assets (1)	Provision for	Contract	Contractual	Incremental
	Contract	losses	assets, net	liabilities (3)	costs (2)
	assets, gross				
Initial adoption on 01.01.18	193,675	(33,196)	160,479	(178,897)	183,645
Reclassification on 01.01.18 (Note 21)	-	-	-	(383,688)	-
Additions	587,733	(512)	587,221	(7,271,614)	262,518
Write-offs, net	(585,675)	-	(585,675)	7,301,992	(190,772)
Balances as of 12.31.18	195,733	(33,708)	162,025	(532,207)	255,391
Current	195,733	(33,708)	162,025	(504,473)	170,703
Non-current	-	-	-	(27,734)	84,688

The amounts in the above table are classified in the balance sheets as follows: (1) Accounts receivable (Note 4); (2) Prepaid expenses (Note 6); and (3) Deferred income (Note 21).

The amounts of additions and write-offs of the above table refer mainly to the recharges and usage of prepaid credits.

Below, we present the expected periods of realization of contractual liabilities.

<u>Year</u>	
2019	(504,473)
2020	(16,753)
2021	(2,383)
2022 onwards	(8,598)
Total	(532,207)

New IFRS pronouncements, issues, amendments and interpretations of the IASB

In addition to the previously issued and amended standards, at the date of preparation of these financial statements, the following issues and changes in IFRS and IFRICs had been published but were not mandatory.

The Company does not anticipate the early adoption of any pronouncement, interpretation or amendment that has been issued before application is mandatory for the year ended December 31, 2018.

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

Based on the analyses made to date, the Company estimates that the adoption of these standards, amendments and interpretations will not have a significant impact on the consolidated financial statements in the initial period of adoption, except for the effects of IFRS 16, where there is an expectation of a significant impact on the consolidated financial position at the time of its adoption and prospectively.

IFRS 16 Leases

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

The Company acts as a lessee in a significant number of leases on different assets, such as towers and the respective land where they are located, circuits, offices, stores and commercial real estate, mainly. A significant portion of these contracts are accounted for as operating leases under the current lease standard, with lease payments being recognized on the straight-line basis over the contract term.

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

The standard also allows for two transition methods: retrospectively for all periods presented, or a modified retrospective approach, where the cumulative effect of adoption is recognized at the date of initial application. The Company decided to adopt the modified retrospective approach. The Company has opted for the practical expedient that allows it to not re-evaluate whether a contract is or contains a lease on the date of the initial adoption of IFRS 16, but to directly apply the new requirements to all contracts that, under the current standard, have been identified as such as leasing. In addition, certain handbooks are available on the first application in connection with the right to use, asset measurement, discount rates, impairment, leases that terminate within twelve months of the date of first adoption, direct start-up costs, and contract term of leasing. Accordingly, the Company opted to adopt the following practical steps in the transition to the new criteria: (i) use of common discount rates for groups of contracts with similar characteristics in terms of term, contract object, currency and economic environment; (ii) application of the practical file that allows it not to adopt the new criteria for contracts that expire in 12 months from the date of the initial adoption; and (iii) exclusion of initial direct costs from the initial valuation of the asset by right of use on the date of the initial adoption.

Based on the volume of contracts affected, as well as the magnitude of future lease commitments, as disclosed in Note 32, the Company expects the changes introduced by IFRS 16 to have a significant impact on its financial statements as of the date of its adoption, including the recognition in the balance of rights-of-use assets and their corresponding lease obligations in connection with most of the contracts that are classified as operating leases in accordance with current standards. In addition, the amortization of rights-of-use assets and the recognition of interest costs over the lease obligation in the income statements will replace the amounts recognized as lease expenses in accordance with current lease standards. The classification of lease payments in the statement of cash flows will also be affected by the requirements of the new lease standard.

Based on the analysis made so far, the Company estimates that the changes introduced by IFRS 16 will have a significant impact on its financial statements as of the date of initial adoption, including recognition in the opening balance sheet for the year 2019 of a value between 8.4 and 9.2 billion reais as rights-of-use assets, in relation to most of the contracts that, under current regulations, are classified as operating leases, as a contra entry to the lease liability.

g) Significant accounting judgments estimates and assumptions

The preparation of the financial statements requires the use of certain critical accounting estimates and the exercise of judgment by the Company's management in applying of its accounting policies. These estimates are based on experience, better knowledge, information available at the end of the fiscal year, and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Settlement of transactions involving these estimates may result in values that are different from those recorded in the financial statements due to the criteria inherent in the estimation process. The Company reviews its estimates at least annually.

The significant and relevant estimates and judgments applied by the Company in the preparation of these financial statements are presented in the following notes: trade accounts receivable (Note 4); income and social contribution taxes (Note 7); property, plant and equipment (Note 12); intangible assets (Note 13); provision and contingencies (Note 19); net operating income (Note 24); pension plans and other post-employment benefits (Note 30); and financial instruments and risk and capital management (Note 31).

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3) CASH AND CASH EQUIVALENTS**a) Accounting policy**

These are financial assets classified at amortized cost or measured at fair value through profit or loss maintained in order to meet short-term cash commitments and not for investment or other purposes. The Company and its subsidiaries consider cash equivalents a short-term investment readily convertible into a known amount of cash and subject to insignificant risk of change in value. Short-term investments are classified as cash equivalents when redeemable within 90 days.

b) Breakdown

	12.31.18	12.31.17
Cash and banks	205,598	117,799
Short-term investments	3,175,730	3,932,539
Total	3,381,328	4,050,338

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

4) TRADE ACCOUNTS RECEIVABLE**a) Accounting policy**

These are financial assets measured initially at fair value and subsequently, at amortized cost and are evaluated by the value of the services provided in accordance with the contracted conditions, net of estimated impairment losses. These include the services provided to customers, which were still not billed at the balance sheet date, as well as other trade accounts receivable related to the sale of cell phones, SIM cards, accessories, advertising and rent of IT equipment (“Soluciona TI” product).

The Company measures the provision for estimated loss for impairment in an amount equal to the loss of credit expected for a lifetime.

b) Critical estimates and judgments

In determining whether the credit risk of a financial asset has increased significantly since the initial recognition and in estimating the expected credit losses, the Company considers reasonable and bearable information that is relevant and available. This includes quantitative and qualitative information and analysis, based on the Company's historical experience, credit assessment and considering forward-looking information. Although the Company believes that the assumptions used are reasonable, the results may be different.

c) Breakdown

	12.31.18	12.31.17
Billed amounts	6,789,257	6,753,621
Unbilled amounts	2,454,810	2,481,364
Interconnection amounts	835,887	859,819
Amounts from related parties (Note 28)	148,814	201,021
Gross accounts receivable	10,228,768	10,295,825
Estimated impairment losses	(1,498,134)	(1,433,471)
Total	8,730,634	8,862,354
Current	8,304,382	8,588,466
Non-current	426,252	273,888

Consolidated balances of non-current trade accounts receivable include:

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- R\$160,979 at December 31, 2018 (R\$122,651 at December 31, 2017), relating to the business model of resale of goods to legal entities, receivable within 24 months. At December 31, 2018, the impact of the present value adjustment was R\$16,672 (R\$16,011 at December 31, 2017).
- R\$93,434, at December 31, 2018 (R\$45,031, at December 31, 2017), net of the present value adjustment relating to the portion of accounts receivable arising from negotiations on the bankruptcy process of companies from the OI group. At December 31, 2018, the impact of the present value adjustment was R\$25,931 (R\$15,535 at December 31, 2017).
- R\$171,839, at December 31, 2018, (R\$106,206, at December 31, 2017), relating to "Soluciona TI", 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 a finance lease. At December 31, 2018, the impact of the present value adjustment was R\$41,455 (R\$33,614 at December 31, 2017).

The accounts receivable balances related to the "Soluciona IT" product include the following effects:

	12.31.18	12.31.17
Nominal amount receivable	573,094	434,743
Deferred financial income	(53,424)	(33,614)
Present value of accounts receivable	519,670	401,129
Estimated impairment losses	(196,435)	(154,666)
Net amount receivable	323,235	246,463
Current	151,396	140,257
Non-current	171,839	106,206

At December 31, 2018, the aging list of gross trade accounts receivable relating to the "Soluciona TI" product was as follows:

	Nominal amount receivable	Present value of accounts receivable
Falling due within one year	279,563	267,595
Falling due between one year and five years	293,531	252,075
Total	573,094	519,670

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

The following is the amounts receivable, net of estimated losses for impairment of accounts receivable, by maturity:

	12.31.18	12.31.17
Falling due	6,485,154	6,635,125
Overdue – 1 to 30 days	1,096,639	1,132,008
Overdue – 31 to 60 days	305,019	375,176
Overdue – 61 to 90 days	200,401	232,648
Overdue – 91 to 120 days	220,221	105,342
Overdue – over 120 days	423,200	382,055
Total	8,730,634	8,862,354

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

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d) Changes in losses for impairment

The following table shows the changes in estimated losses for impairment of accounts receivable.

Balance at 12/31/16	(1,399,895)
Supplement to estimated losses, net of resersal (Note 25)	(1,481,015)
Write-off due to use	1,456,158
Business combinations (Note 1.c.2)	(8,719)
Balance at 12/31/17	(1,433,471)
Initial adoption IFRS 9 on 01.01.18	(364,456)
Supplement to estimated losses, net of resersal (Note 25)	(1,533,660)
Write-off due to use	1,833,453
Balance at 12/31/18	(1,498,134)

5) INVENTORIES**a) Accounting policy**

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

Estimated impairment losses are set up for materials and devices considered obsolete or whose carrying amounts are in excess of those usually sold by the Company within a reasonable period. Additions and reversals of estimated impairment losses and inventory obsolescence are included in cost of goods sold (Note 25).

b) Breakdown

	12.31.18	12.31.17
Materials for resale	413,843	325,850
Materials for consumption	61,819	57,740
Other inventories	30,013	7,822
Gross total	505,675	391,412
Estimated losses from impairment or obsolescence	(43,622)	(42,657)

Total

462,053 348,755

6) PREPAID EXPENSES

a) Accounting policy

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

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b) Breakdown

12.31.18