2017 Sustainability Report

Sustainable connections that *transform* the future_

Telefónica

Messages from
the Company's
leaders

2017
Highlights

About this
Report

About
Telefônica Brasil

Governance

Strategy

Excellent
Connectivity

Connecting
People

Sustainable
Innovation

Society

Suppliers

Employees

Environment

Financial
Results

GRI Index

Summary_

Introduction

01

Message from the CEO of Telefônica Brasil_

GRI 102-14

What are the key factors for Telefônica Brasil's sustainability and how did they evolve during 2017?

We can summarize most of these factors in one word: quality. Our Company exists due to customers and the perception they have of our products. It does not matter if we are offering mobile, fixed line, voice or pay-TV services - it always has to be the best option available in the market.

This issue permeates the various sectors of our operation. Customers pay close attention to the quality and coverage of our signal, for example. Therefore, in 2017, we invested R$6.8 billion in the expansion of our network, reaching 2,084 new cities with 4G and 16 new cities with fiber optics. But we are aware that the customer perception of quality goes well beyond the network. Therefore, we have implemented 90 projects in several areas of the Company, in order to improve the perception of our services. As a result, we have achieved the best Customer Satisfaction Index in our history.

We also reached great advances in the digitalization of our operation, regarding internal processes and products offered and customer relationship. One clear example that directly improves customer experience is the Meu Vivo app, which has been downloaded more than 28 million times since its launch.

And how does employee performance impact the customer perception of quality?

We clearly understand that the quality of our Company's services depends on our employees. Our quality differential is, in fact, a talent differential. We know that in order to have a talented, creative and innovative team, diversity is an essential condition. Therefore, we launched Telefônica's Global Diversity and Inclusion Policy.

Regarding customer service, we know that quality is perceived in all points of contact with the Company, whether in person or by telephone, through a Vivo employee or a service provider. That is why we launched the DNA Vivo program at the end of the year, aimed at implementing the same service culture for all points of contact: simple, efficient and charming.

What is the relation between compliance and this perception of quality?

Ethics and integrity are at the heart of our business. There is no point on reaching a satisfactory service in the short term, if the Company's foundations are crumbling. In the long term, customers and employees perceive this and seek other services. Therefore, this has always a concern for us, but we decided to formalize its importance through the creation of a Compliance Board, which is totally independent and reports directly to the Board of Directors. In 2017, the Compliance Board was responsible for the launch of #VivoDeAcordo, our compliance program.

How do you evaluate Telefônica Brasil's performance in view of the continued economic crisis in the country?

The telecommunications industry offers a product that is becoming increasingly essential to the population and therefore, it is more resilient to the crisis. While some industries presented a decrease of between 10% and 20% a year, ours remained practically stable, as customers did not forego telecommunications services.

On the other hand, one factor that has been challenging the industry is the change in customer habits. Today, we have two families of products. One is associated with voice, which is becoming outdated, and the other is associated with data, which is growing fast, and needs a very large amount of investment. This dynamic has been bringing difficulties for the sector to increase revenue.

We are very confident in our business because we understand that it is fundamental to the 21st century society and that it is the driving force of digital transformation. Nothing happens if people, business, and objects are not connected. If we can be efficient in our operation and increase the portfolio of products offered, we will certainly reach good results. And this has happened. Despite the crisis in Brazil and in the industry, we managed to grow, with revenues of R$43.2 billion and EBITDA of R$14.5 billion in 2017.

How is sustainability part of the Company's growth strategy?

At Telefônica, we know that if we are not sustainable, we will not survive in the long run. Therefore, our growth strategy is linked to value generation. Our Responsible Business Plan and the commitments to the Global Compact and Sustainable Development Goals clearly highlight the focus on sustainability in our management.

We understand that the very nature of our service directly contributes to sustainable development, helping to reduce carbon emissions by reducing population transportation and by increasing control over energy consumption.

Our sustainability strategy proposes a series of initiatives to reduce the environmental impact of our operation. We have achieved important advances in energy efficiency, so that, even with an increasing consumption of data, energy consumption is kept at controlled levels. We also seek to use renewable sources more and more, in order to reduce our emissions.

What are the Company's main concerns in the transition to an increasingly digital society?

Following our vision of becoming an Onlife Telco, we are increasingly present in the customer's life, offering the best connection at all times. But we want to go one step further. As customers are increasingly connected, we are commitment to Digital Trust. We want them to have more control over their data, to know what traces they leave behind, and what information they are sharing. To this end, we maintain the Portal Dialogando and re-launched the Privacy Center, which provides tools for customers to consciously use our services.

We want to be known as more than the Company with the best coverage and signal, but as a responsible, open, inclusive and innovative Company, aware of its responsibility to society and the environment.

Eduardo Navarro
CEO of Telefônica Brasil S.A.

Message from the COO_

We are proud to publish Telefônica Brasil's 2017 Sustainability Report, where we explain how our business model contributes to the sustainable development of the country, generating value for our customers and the communities in which they live.

Our Company's purpose is to connect people and businesses throughout Brazil. With more access to the digital world, our customers have more opportunities to become entrepreneurs, to innovate, gain knowledge, expand business and, in a domino effect, generate wealth for their families and society as a whole.

For this reason, we believe is strategically important to expand our signal to an increasing number of cities, connecting regions that were digitally isolated. In 2017, we reached 2,600 municipalities with our 3G and 4G signals, totaling 84.5% of the Brazilian population – more than any other operator in Brazil. In addition, we expanded our fiber optic network to 16 new cities: Volta Redonda and Barra Mansa (RJ); Avaré, Cosmópolis, Botucatu, Hortolândia, Lençóis Paulistas, Campo Limpo Paulista, São Carlos (SP); Vitória da Conquista, Itabuna (BA); Garanhuns, Petrolina (PE); Teresina (PI); Guarapari (ES) and Pouso Alegre (MG).

Therefore, we reached 87 cities and 7.4 million customers at the end of the year, reaffirming our role as a driving force of the country's digital transformation.

A company of our size, operating in all Brazilian states, has a huge responsibility for the impact our activities have on society and the environment. Therefore, we have a number of initiatives aimed at increasing the positive impact and reducing the negative impact of our entire value chain.

In 2017, we spent R$25 billion with our suppliers. Through our Sustainability Policy for the Supply Chain and regular audits, we ensure that this amount is invested in socially and environmentally responsible companies, increasing our value creation for the country.

Within our operation, we mainly seek to reduce energy consumption, CO_2 emissions and waste generation. In 2017, 26% of our electricity was generated from renewable sources, contributing more and more to mitigate climate change. We aim to increase our use of renewable energy to 100% by 2030.

Regarding our relationship with our customers, we strive to be more transparent and clear by providing tools such as Portal Dialogando and the Privacy Center, so that they use our services in the safest and most reliable way possible. At the end of 2017, we launched the DNA Vivo program, aimed at standardizing all of our customer care channels, seeking to create a culture of excellence in service. We also launched, at the beginning of 2018, Aura, Telefônica's artificial intelligence tool to assist customers in their interactions with the Company.

Throughout this report, you will learn more about how these and other initiatives contributed to our generation of value during 2017.
Enjoy your reading!

Christian Mauad Gebara
COO of Telefônica Brasil S.A.

2017 Highlights_

Score of 7.67 in the Customer Satisfaction Index, the highest in our history.

Net revenue of R$43.2 billion and net income of R$4.6 billion.

Launch of #VivoDeAcordo, the Company's compliance program.

Expansion of our 4G network to 2,084 new cities and the fiber optic network to 16 new cities.

Launch of the DNA Vivo program, which aims to create a culture of excellence in all points of contact with the consumer.

Launch of Telefônica's Global Diversity and Inclusion Policy.

Digitalization of operations and services, with the launch of Vivo Next and the expansion of Meu Vivo.

20% increase in energy consumption from renewable sources.

About this Report_

GRI 102-50 / 102-56

Telefônica Brasil's 2017 Sustainability Report presents, in a clear and transparent way, how our strategy and operation generated value for our stakeholders in the last year.

The information covers the business conducted by Telefônica Brasil, commercially represented by the Vivo brand, from January 1 to December 31, 2017.

For the 14th consecutive year, our report follows the Global Reporting Initiative (GRI) guidelines, a voluntary standard adopted by thousands of companies around the world.

As of this year, we will follow its latest and updated version, known as Standards.

In order to organize the information provided, we adopted the methodology of the Integrated Reporting model, as established by the International Integrated Reporting Council (IIRC). The goal is to bring financial, social and environmental information in an integrated manner, clearly presenting how the Company generates value from the relationship of its business model with its different inputs.

In addition to these guidelines, this document also presents the relation between our activities and the 17 SDGs (Sustainable Development Goals) proposed by the UN (United Nations) with the aim of engaging governments and organizations around the 2030 Agenda (learn more on page 20), using icons throughout the chapters, which show how initiatives of the Company contribute to every commitment we made in relation to the SDGs.

The information in this Report has been externally audited by an independent company, according to the letter presented on page 96.

Material topics_

GRI 102-40 / 102-42 / 102-43 /102-44 / 102-46 / 102-47 / 102-53 / 102-54

In order to define the most material topics for our stakeholders to be addressed in this Report, we carry out a structured process to understand the economic, social and environmental issues that they consider most important for the sustainability of the Company in the short, medium and long term. These topics also guide our strategic management, generating indicators and targets that we followed throughout the year (learn more on page 27).

In Brazil, this process involved consulting the Company's shareholders, executives, employees, suppliers, service providers and business partners, as well as representatives of the user council and civil society organizations through interviews and workshops held in 2015. These stakeholders were selected based on a study of our value chain, as well as research and benchmarking of the telecom industry.

The topics raised in the local process were crossed with a survey carried out by the Telefónica Group, based on its Stakeholder Panel.

Therefore, we identified the Material Topics that most impact our ability to generate value in the long term and the relevant aspects according to our stakeholders.

Stakeholder Panel

The Telefónica Group has been consulting its global stakeholders since 2016, through the Stakeholder Panel. The panel brings together key stakeholders and experts to discuss issues relevant to the Company's sustainability and key industry trends.

The consultations are online and held every six months, covering customers, sectoral and multi-sectoral associations, NGOs, suppliers, investors, governments and researchers distributed in the different markets in which the Telefónica Group operates, including Brazil. In 2017, two rounds of online consultation were held.

As a result of the research, 55 issues relevant to the sector were identified, divided into eight categories: digital inclusion, employees, climate change, value chain, customers, privacy, governance and impact on society.

The information gathered was used as a basis for our process of defining the Company's Material Topics.

Global Material Topics	Relevant aspect for Telefônica Brasil
Promise to the Customer and Digital Trust	Transparency and reporting
	Quality of service and customer service
	Responsible marketing communication
	Digital trust (privacy, freedom of expression and use by vulnerable groups)
	Inclusion and digital accessibility
Contribution to Progress	Growth of the sector and the economy
	Social investment
Diversity and Talent Management	Development and retention of talents
	Diversity
Environment	Climate change or carbon emissions
	Energy efficiency or energy consumption
	Electronic waste
	Renewable energy
Sustainable Innovation	Innovation and technological development
	Green IT and efficient products
Ethics	Ethical business practices
Sustainability Management in the Value Chain	Social and environmental impacts in the supply chain

Following the GRI guidelines, under the Core option, we use the material topics as the basis for choosing and reporting a series of indicators, which can be identified throughout the document by the "GRI" abbreviation. The full list of indicators can be found in the GRI Index (page 87).

Enjoy your reading!

Contact

Comments, suggestions and questions about the Sustainability Report should be sent by email to sustentabilidade.br@telefonica.com.
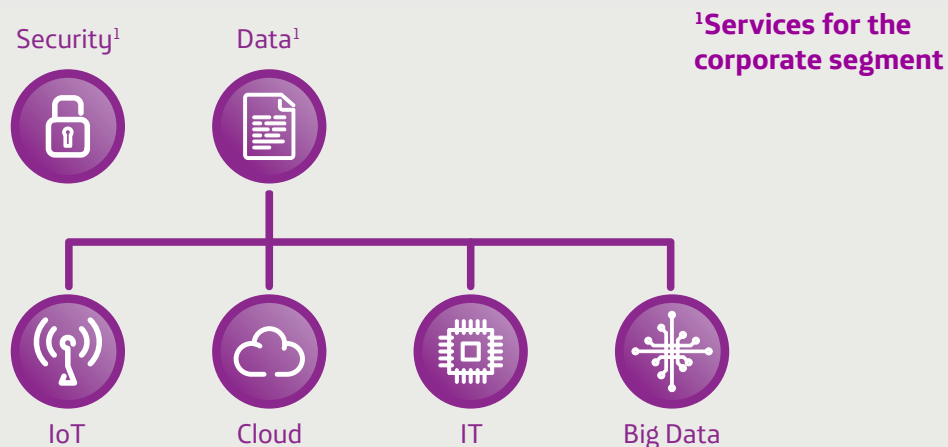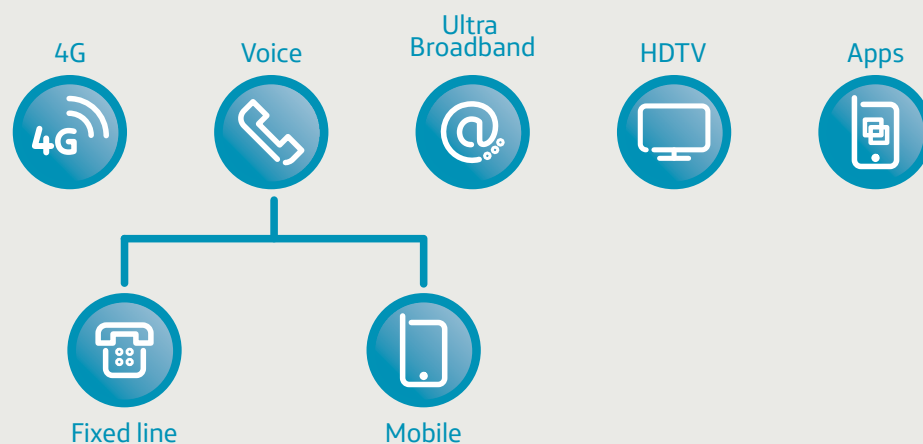
About Telefônica Brasil

02

About Telefônica Brasil_

GRI 102-1 / 102-2 / 102-3 / 102-4 /102-6 / 102-7 / 102-16

Telefônica Brasil S.A. is the largest telecoms company in Brazil, with more than 97.8 million accesses to our fixed and mobile products and services in more than 4,300 cities throughout the country.

Our Products

4G   Voice   Ultra
Broadband   HDTV   Apps

Fixed line   Mobile

Security[1]   Data[1]   **[1]Services for the corporate segment**

IoT   Cloud   IT   Big Data

Headquartered in the city of São Paulo, we are recognized by the strength of the Vivo brand, the most notable among consumers in cell phone and broadband internet providers, according to the 2017 Top of Mind Award.

Our Company is part of the Telefónica Group, one of the largest telecom conglomerates in the world, with operations in 16 countries besides Brazil: Spain, United Kingdom, Germany, Argentina, Chile, Mexico, Venezuela, Ecuador, Costa Rica, Guatemala, Peru, Colombia, El Salvador, Nicaragua and Panama.

Telefônica Brasil figures

97.8 million accesses

4,300 municipalities covered by the mobile network (representing *94.4%* of the country's population)

33,622 employees

31.7% of market share

R$ 43.2 billion in net revenue

Recurring EBITDA of *RS 14.5 billion*

Net Income of *RS 4.6 billion*

OUR VISION

Digital life is life itself, and technology is an essential part of being human.

We want to create, protect and boost connections in life so people can choose a world of unlimited possibilities.

We want to be an ONLIFE TELCO, a telco for the people, a telco for your life.

OUR VALUES

These values define us and are the driving force behind everything we do. They express how we are and how we want to be. They give form to our attitude:

INTEGRITY
Our integrity implies acting in accordance with non-negotiable ethical standards.

COMMITMENT
The relationship we maintain with our stakeholders is based on a commitment to always act responsibly and to fulfill what was promised.

TRANSPARENCY
We are committed to provide clear and accessible information about our strategy and our activities to our customers, suppliers, employees, shareholders and society, and they are able to contact us with doubts or questions at any time.

Business model_

Our business model is based on generating value for all our internal and external stakeholders, for society and for the environment.

Our ability to generate social and environmental value and positive impact relies on the nature of our business, which is based on providing quality connection for people and companies throughout Brazil. Therefore, we help the development of the most remote places in the country, connect homes, companies, schools, hospitals and governments in the digital world.

The impact of connection expansion in a country's economy is demonstrated by a study by the Inter-American Development Bank (IDB), which estimates that a 10% increase in the penetration of broadband services in a region leads to an increase of 3.2% in GDP (Gross Domestic Product). Therefore, we calculated that our performance contributed to the generation of €12.7 billion in the Brazilian GDP.

Our main allies in this generation of value for society are the 1,690 suppliers we partnered with throughout 2017. Our procurement practices require social and environmental responsibility from these companies, ensuring sustainability throughout the chain.

The main input we have in our business model is the engagement of our 33,600 employees spread across the country. Therefore, we also seek to generate value for these stakeholders, either through benefits, a positive working environment or the training we offer. In 2017, we focused on the promotion of diversity in our teams, valuing individual talents and seeking to reflect the diversity of the Brazilian society and reinforce its importance as an element for innovation.

We seek to generate all this value for society with no negative impacts on the environment. That is why we go beyond compliance with all Brazilian environmental laws, establishing global and local targets for reducing environmental impacts such as energy consumption, CO_2 emissions and waste generation. We also have reverse logistics processes to reduce the impact of electronic waste.

We are focused on further facilitating the connection between people and contributing as a driving force of digital transformation in Brazil.

In addition, by facilitating communication between people, our business also directly contributes to a low-carbon economy, as it shortens distances, reduces travel, and allows greater control over energy consumption.

Our strategy is focused on becoming an increasingly digital company, from the point of view of internal processes and the services offered to customers. Therefore, we aim to facilitate the connection between people and contribute as a driving force of digital transformation in the country.

The graph below demonstrates how we generate value for our stakeholders from our several inputs:

Financial Capital
- Result of operations
- Financing with financial institutions

Infrastructure
- Network of operations distributed across 4,300 cities
- Security technology and data protection
- About 12,000 points of sale

Customers
- 97.8 million accesses to our services
- Digitalized service network, aiming at customer satisfaction

Innovative culture
- Knowledge of key industry trends
- Data collected in customer service channels and operation centers, analyzed by big data

Social
- Reputation of the Vivo brand
- 1,690 suppliers
- Recognized performance of the Telefônica Foundation

Employees
- 33,600 employees and 126,000 allies
- Structured people management

Natural Capital
- Water and energy to supply operations
- Mineral consumption and land use for network expansion
- Use of electromagnetic spectrum for the 4G network

How we generate value

Inputs   **Value generated**

Financial Capital

Infrastructure

Customers

Innovative culture

Social

Employees

Natural Capital

Telefônica Brasil

Financial Capital

Infrastructure

Customers

Innovative culture

Social

Employees

Natural Capital

Escolhemos Tudo Strategy
(learn more on page XX)

Excellent Connection	End-to-end digitalization
Customer Values and Experience	Allocation of capital and simplification
Big Data and Innovation	Integrated offer

Products and services

Voice	Ultra Broadband
HDTV	Security
4G	Data
Apps	

External Environment

Brazilian economy   Brazilian legislation

Financial Capital (page 82)
- Net income of R$4.6 billion
- R$2.4 billion distributed to shareholders

Infrastructure (page 29)
- Expansion of the mobile network to 2,600 cities and of the fixed line network to 87 cities
- Elliot Project for fraud protection with customer data

Customers (page 34)
- Consumer Satisfaction Index of 7.67, a historical record

Innovative culture (page 41)
- Implementation of Telefônica Aura
- Digital transformation of operations with Vivo Next
- Digital services for B2B (IoT, Cloud, SD1)
- Innovative startups supported by Wayra

Social (pages 52 and 56)
- Contribution to the generation of 12,770 million euros in GDP.
- Contribution to the generation of 296,616 jobs in the country.
- R$25 billion spent on socially responsible suppliers
- Expansion of access to education through the Telefônica Foundation

Employees (page 62)
- Average of 53.25 hours of training per employee
- New Diversity Policy

Natural Capital (page 70)
- Increase in the consumption of energy from renewable sources
- 9,593 tons of waste produced
- Reverse Logistics of mobile phones and electronic equipment
- 117 million sheets of paper no longer used due to digital contracts

Sector Context_

In 2017, Brazil's macroeconomic situation showed signs of a slow recovery, with an increase of 1% in GDP, after the fall of 3.6% in 2016. On the other hand, inflation measured by the IPCA (Extended National Consumer Price Index) was 2.95%, representing a reduction of 3.35 p.p. compared to the previous year (6.3%). Within this scenario, the Monetary Policy Committee (Copom) reduced the basic interest rate from 13.75% to 7.0% during 2017. This economic context resulted in a slow resumption of growth in the telecommunications sector, mainly in the products and services related to the provision of high-speed connection.

According to data from Anatel (National Telecommunications Agency), fixed broadband continued to lead the sector's growth in 2017, showing a 7.4% increase in contracts compared to 2016. Customers are mainly looking for higher speed access, such as fiber optics, which presented higher growth compared to accesses at lower speeds.

Fixed line broadband accesses (million)

26.8 2016 → **+7%** → **28.7** 2017
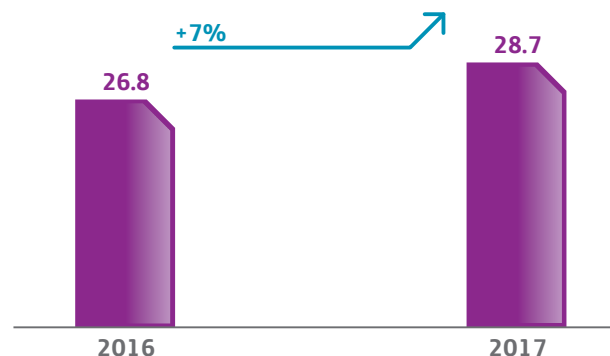
Mobile phone services fell by 3.11% in accesses in relation to 2016, due to the reduction in pre-paid services, which dropped 9.83% in the year. Post-paid services, however, registered an increase of 10.85%, representing 37.2% of the lines in the country. The growing demand for speed also led to the expansion of the 4G service, which grew by 70.1%.

4G accesses (million)

60.1 2016 → **+70%** → **102.2** 2017
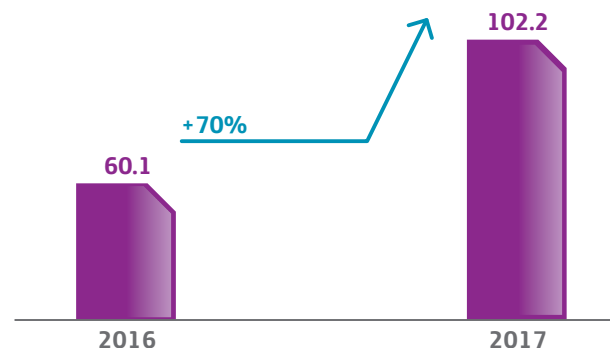
Meanwhile, cable TV services fell by 4.22% during the year. In fixed line phone service, authorized providers saw a decrease of 0.11% in the number of lines and annual concessionaire was down by 4.48%.

Within this context, our focus on high-speed connection, which resulted in the expansion of our fiber optic and 4G networks, ensured the achievement of strategic goals, economic results and customer satisfaction.

In the regulatory environment, the PLC 79, which addresses the reform of the LGT (General Telecommunications Law), was submitted to the Science, Technology, Innovation, Communication and Information Technology Committee. After the Committee's opinion is delivered, the bill must be approved by the Brazilian Senate.

The delay in approving the project prevents the modernization of the LGT, which was approved in 1997 and is now out of date, due to the evolution of the telecommunications sector in recent years.

Governance

03

Corporate Governance_

GRI 102-18

We are a publicly traded company with shares listed on B3 S.A. – Brasil, Bolsa, Balcão ("B3") and on the New York Stock Exchange ("NYSE"). Our governance directs our operational strategy and application of the Responsible Business Principles in an ethical and transparent way, respecting legal requirements and legislation applicable to the capital market.

Our corporate governance principles are set forth in the Bylaws and internal rules, aligned with the legal and regulatory requirements of the capital market. Among the goals of these principles, we highlight: (i) maximization of the Company's value; (ii) transparency in accountability, in reporting relevant information to the market and in relations with stakeholders; (iii) equality in shareholder treatment; and (iv) providing accountability to shareholders, ensuring the sustainability of the business.

Inspired by these principles, we established measures to make our practices clear and objective. We believe that these advances, recognized by our inclusion for the sixth consecutive year in B3's Corporate Sustainability Index (ISE), have benefitted current and future investors, as well as the market in general.

Our Board of Directors is comprised of 12 members, elected by the Annual Shareholders' Meeting for a three-year term of office, re-election permitted. The Board of Directors is assisted by four non-statutory committees.

Our structure also includes an Executive Board, comprised of three members, elected by the Board of Directors for a three-year term of office, re-election permitted.

The Company also has a permanent Fiscal Council, made up of three sitting members and three alternate members, elected at the Annual Shareholders' Meeting for a one-year term of office, re-election permitted.

Governance Structure

Annual Shareholders' Meeting

Board of Directors

Fiscal Council

- Audit and Control Committee
- Appointments, Compensation and Corporate Governance Committee
- Board of Executive Officers
- Quality of Service and Customer Service Committee
- Strategy Committee

For more information on the composition of our governing bodies, their attributions and the resumes of their members, please access the Company's Reference Form at: goo.gl/7KeFvc.

Ethics and Compliance_

GRI 102-16 / 102-17 / 103-1 / 103-2 / 103-3

The ethical performance of our management and all employees is assured by the Responsible Business Principles – Telefónica Group's code of ethics. Its global guidelines define how we operate, the type of Company we want to be and the way we relate with our stakeholders. We therefore commit ourselves to the applicable national and international laws in the fight against corruption and ensure long-term value creation for all our stakeholders.

The guidelines and values set forth in the Responsible Business Principles are applicable to all employees, executives and directors, regardless of their position in the Company, as well as to the persons or entities that provide goods or services to Telefônica.

The Responsible Business Principles forbid any type of bribery, preventing the promise, offering or donation of benefits or advantages in order to influence decisions or obtain undue advantages for the Company. Employees should not offer or accept gifts, prizes, invitations or other incentives that may reward or influence a business decision.

In order to reinforce the independent supervision of the Company's activities, in 2017, we structured Telefônica Brasil's Compliance area, led by a Chief Compliance

Officer, who reports directly to the Audit and Control Committee of the Company's Board of Directors.

Complaints

Any event of non-compliance with our Responsible Business Principles, as well as with any normative rules, policies or current legislation, may be reported to the Company's official Complaints Channel through the different means available to all employees, such as telephone, e-mail, intranet, letter, fax or in person.

Complaints may be reported anonymously and investigations are conducted carefully and in detail by the Inspection Team, part of the Chief Audit Officer structure. All information received is handled in a safe, confidential and responsible manner.

The Compliance area's main objective is to be a benchmark in regulatory compliance and corporate ethics, generating value for our stakeholders, protecting the Company and its employees, reducing non-compliance with laws and further enriching our culture based on integrity and ethics. Its performance pillars are: prevention, detection and mitigation, acting together with the other areas in the maintenance of business excellence.

In 2017, we started a compliance program called #VivoDeAcordo, which has the total commitment of senior management, a solid structure responsible for the program's actions and the continuous analysis and evaluation of business risks.

The program includes a solid communication plan and regular compliance training for current and new employees, including all of the Company's directors and senior management.

The training process addresses issues such as the Responsible Business Principles, anti-corruption laws in Brazil and the United States, conflicts of interest, fraud prevention, channels available by the Company, compliance programs terms and updates.

We contribute to SDGs through this initiative:

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

We also made available a consultation channel, called Fale com o Compliance, to clear doubts about ethical concerns, conflicts of interest and other clarifications about the #VivoDeAcordo program.

We created a unified portal where employees have access to all our policies, norms and regulations, addressing a wide range of topics, including corruption, information security, gifts and entertainmen.

Our Anti-Corruption Policy is available through the link: goo.gl/HXvwn1

As recognition to our evolution in compliance, we were placed among the 15 best evaluated companies of the first edition of the "The 100 Biggest Companies and the 10 Biggest Banks in Brazil" survey, by the NGO Transparency International. The study took into account three aspects of each of the evaluated companies: adoption of anti-corruption practices, clarity of the organizational structure and transparency in the disclosure of financial information.

Sustainable Commitments_

GRI 102-12 / 102-13

In line with the commitment to improve our business model in order to generate more and more social and environmental value for all our stakeholders, we support several global and national initiatives aimed at promoting sustainable development. Among them are:

Since 2016, we have made a commitment to contributing to the 17 SDGs (Sustainable Development Goals) proposed by the UN to guide national policies and engage organizations in challenges such as eradicating poverty, fighting climate change and preserving natural resources.

In 2017, the Telefónica Group carried out a study on the main SDGs impacted by our operations. The result showed that our main contribution is related to the SDGs 9 – Industry, Innovation and Infrastructure. This Goal is not only impacted by our performance, but by the nature of the business – the SDG reflects on the Company as a whole. The research also pointed out other 13 Goals related to our business, displayed below from the greatest to the lowest impact:

SDGs impacted by the Telefônica Group

These goals are integrated with our business strategy and, throughout the report, we present how our several initiatives impact them.

In 2017, we participated, through the Telefônica Foundation, in the global campaign #Companies4SDGs, which engages more than 30 companies from different sectors in the dissemination and achievement of the goals, through its corporate volunteer programs.

#COMPANIES4SDGs

We are also involved in a number of other initiatives, such as:

Since 2010, we have been signatories to the Global Compact, a UN initiative to encourage companies to follow corporate social responsibility and sustainability policies through the adoption of ten principles related to human rights, labor, environment and corruption. The GRI Index (page 87) presents the relation between our initiatives and each of the Global Compact principles.

The Carbon Disclosure Project gathers carbon emission indicators from corporations around the world to encourage a more sustainable economy based on the rational use of energy, from renewable sources, helping investors in decision-making processes. The Telefónica Group is featured in CDP's A list, due its strategy, transparency and actions to fight climate change, and is placed second among telecommunications companies.

The Brazilian GHG Protocol Program encourages a corporate culture of elaborating and publishing greenhouse gas (GHG) emissions inventories. We have been publishing our inventory annually since 2010 and, for the last six years, we have been recognized with the Gold Seal.

Global initiative that gathers companies committed to achieving 100% renewable energy consumption in their operations. The Telefónica Group has committed to achieving 50% renewable energy by 2020 and 100% by 2030.

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

Organizations

We seek to engage in the discussion of topics relevant to the telecom industry and the country's development through association with organizations such as:

- **SindiTelebrasil** (National Union of Telephone Companies and Mobile and Personal Service)

- **Telebrasil** (Brazilian Telecom Association)

- **ABTA** (Brazilian Pay TV/ Telecom Association)

- **Asiet** (Inter-American Association of Telecom Companies)

- **Brasscom** (Brazilian Association of Information Technology and Communication Technology Companies)

- **Aberje** (Brazilian Association of Corporate Communications)

- **Abranet** (Brazilian Internet Association)

Strategy

04

Viva Tudo_

In a world of increasingly digital relationships, with the ever-greater volume of data used in global communications, digitalization has become the focus of our business strategy. We are an OnLife Telco, a telecommunications company capable of providing the necessary connections throughout the customer's life.

With this goal in mind, we defined the Viva Tudo (Experience Everything) strategy, which places the customer in the center of our business model, guides our investments and establishes goals and commitments until 2020.

We are an OnLife Telco, a telecommunications company focused on its customers.

The Viva Tudo strategy is represented by a six-sided cube, as follows:

OUR THREE PROPOSITIONS
Three sides of the cube make up our value proposition, aimed at the customer:

Excellent Connectivity
Our customers want to be connected everywhere and at all times. With the exponential growth of apps and digital services, we have to take advantage of our assets to offer cutting-edge infrastructure, providing the best experience and setting ourselves apart from competitors.

Bundled Packages
In order to make our customers' digital lives easier, we offer products, services and content that is increasingly better and easier to understand.

We should anticipate needs and adapt to deliver a personalized proposal to our residential and corporate customers, fulfilling their needs and demands. Our offers are also aimed at improving the customer experience through sustainable innovation, with services and solutions that positively impacts society in relation to e-health, financial services, the environment, smart societies, education, safety and social and cultural diversity.

Customer Values and Experience
We want our customers, who are at the center of our value proposition, to be more and more satisfied with a unique and special experience. We are focused on operating in transparent way, ensuring our customers security and control of their data so they can take advantage of everything the digital world has to offer.

OUR THREE FACILITATORS
The other three sides of the cube are tools to promote the Company's transformation and fulfill our value proposition:

Big Data and Innovation
Big Data is the key to learning about and analyzing the data generated in our networks and to providing services that are better adapted to the needs of our customers, a step ahead of connectivity. At the same time, it is a platform that optimizes our resources and operations. We foster internal and external innovation, developing services and partnerships that, in addition to complementing our offerings, promote the transformation and evolution of society.

End-to-end Digitalization
The digitalization of our entire value chain improves the customer experience and increases our agility in service and in convergence of processes. Digital transformation is a facilitator for the achievement of our strategic goals.

Capital Allocation and Simplification
Our vision of being an OnLife Telco is ambitious and requires continuous capital investment to expand and improve our capabilities. In parallel, our goal is to continue growing in a profitable way, simplifying and optimizing resources and investments to ensure shareholder return and business sustainability.

Responsible Business Plan_

Our business is conducted based on our Viva Tudo strategy, which establishes goals and commitments to be achieved by 2020 and which means working in an integral and transparent way, committed to sustainable development.

In order to boost value creation and business sustainability, our performance model seeks to operate throughout our value chain. It aims to ensure that our strategy is always focused on enhancing our positive impacts and reducing our negative impacts on society and the environment, leading to a long-term relationship of trust with our stakeholders.

This model is based on three commitments, which permeates our entire value chain:

Risk Management

We seek to ensure compliance with legislation and regulatory frameworks at international, national and regional levels in order to anticipate trends and changes in regulation that influence our business on environmental issues, the supply chain and taxes.

Responsible Production

We strive to improve our service by incorporating sustainability criteria across all processes. In addition to the integrated offer to customers, quality and care, we seek to be more efficient and generate value with a long-term commitment to talent management, energy efficiency and environmental issues, the supply chain and taxes.

Sustainability as Growth Lever

We value the social and environmental benefits of the products and services we offer to our customers, companies and individuals. We also work so that the digital environment is increasingly open and secure, so that the opportunities of technology are available to everyone, providing the geographic, social and personal accessibility of technolo.

Based on this performance model, our operation, in its tactical form, is developed into seven topics identified in our materiality matrix and gathered by the stakeholders in the Stakeholder Panel (learn more on page 08).

To ensure control and progress on each of these topics, a series of indicators are monitored in our Responsible Business Plan.

The creation of the Responsible Business Plan, in line with the identification of material topics and their respective indicators, is one of Telefónica Group's global projects. In each country, the Plan is broken down into local plans, which permeate its strategy with the aim of promoting the sustainability of the entire value chain, social development and environmental conservation.

In Brazil, the plan is aligned with each related area and submitted annually to the CEO and the Board of Directors. The monitoring of the indicators is carried out every quarter, with periodic reporting to the Company's executives.

In order to support the development of the Responsible Business Plan, we rely on a Sustainability area that reports locally and is strategicly aligned to the area responsible for managing the topic across the Telefónica Group.

In 2017, we rely on seven topics to define 58 indicators covering eleven areas of the Company, which were monitored and improved over the years. In the year, 93.8% of the goals established by Telefônica Brasil were reached, against 87% in 2016. The main results and advances are presented throughout this Report. Projects that were not fully implemented in 2017 were extended to the next year and are being developed up to their conclusion. In the next cycle, the plan will be redesigned in a three-year model comprising the period from 2018 to 2020.

In 2017, 93.8% of the Plan's goals in Brazil were reached.

Topic	Goals for 2017	Status	Goals for 2018
Diversity and Talent Management	Implement the Global Diversity Policy	✓	Implement Remote Work access for employees
	Implement the development program for executives in order to improve the profiles required for the Company's digital transformation	✓	Increase the percentage of women in executive positions
Environment	Lower absolute GHG emissions by 5% (by 2020)	✗	Lower absolute GHG emissions by 5% (by 2020)
	Reduce energy consumption	✗	Communication and study on Carbon Footprint
	Revise the reverse logistics program	✓	Reach 100% of energy consumption from renewable sources
Promise to the Customer and Digital Trust	Structure and implement the Promise to the Customer action plan	✓	Visibility of responsible use of technology campaigns
	Implement local Privacy Center	✓	
	Adopt Telefônica Aura, known as the Fourth Platform, in Brazil	✓	Local publication of the transparency report
	Implement portals accessible to people with disabilities	✓	Implement the DNA Vivo program, aimed at creating a culture of excellence in all customer contact points.
Sustainability Management in the Supply Chain	Improve third-party management through actions such as expanded inspections and implementation of plans for improvement	✓	Establish improvement plans for suppliers' non-compliance in audits
	Hold the annual meeting with strategic suppliers	✓	Train managers in contract management including social and environmental issues
	Monitor the implementation of the Sustainability Policy for the Supply Chain	✓	
Sustainable Innovation	Implement sustainable sites	✓	Increase the number of customers who use the Digital Account
	Use Big Data to direct more efficient network investments	✓	Implement a project on the Natural Disasters issue
	Measure positive and negative environmental impacts of our products and services	✓	Implement new projects that evaluate social and environmental impacts as a decision-making criterion
Contribution to Progress	Grow the number of cities covered by the 4G mobile network	✓	Grow the 4G Mobile Network
	Expand the ultra-broadband fixed line through FTTH (fiber-to-the-home) coverage to new cities	✓	Increase the number of cities covered with FTTH
	Benefit 1.2 million people with the Telefônica Foundation programs	✓	Increase the number of beneficiaries of the Telefônica Foundation programs
Ethics	Review, train and disseminate the Responsible Business Principles to employees	✓	Reach 100% of employees who completed the new course on Responsible Business Principles
			Signing of the Anti-Corruption Certificate by 100% of active managers every year

Risk management_

Risk Management is another key process to ensure our ability to generate value in the long term. Therefore, we rely on a structured risk management model, based on the Corporate Risk Management Policy that is aligned with the Company's global guidelines, and considers the main international standards, such as COSO ERM (Committee of Sponsoring Organizations of the Treadway Commission – Enterprise Risk Management) and ISO 31000. The model enables our managers to consistently identify, assess, control and report the main factors that may negatively impact our business, with the support and coordination of the Risk Management area.

The risk management model defined by the Telefónica Group provides a high degree of awareness concerning the risks to which the Company is exposed and guarantees the continuous improvement of the business.

The risks identified are divided into four main categories.

Main risks to Telefônica Brasil

Business

Possible losses resulting from changes in the business environment, the market or the regulatory environment.

Operational

Possible losses resulting from failures in areas such as customer service, processes, human resource, equipment, systems, security, contracts, laws or regulations from external factors.

Financial

Risks caused by adverse movements in financial variables, the Company's inability to meet its commitments and the loss of assets, as well as commercial and tax credit risks.

Global

Risks related to the Telefónica Group, impacting its reputation and sustainability, communication, advertising strategy, brand, sponsorships and innovation capacity.

Our risk matrix is updated every six months and the control mechanisms are revised by the internal audit. A manager is appointed for each risk identified, being responsible for preparing a mitigation and monitoring action plan. The control measures adopted involve the definition of mitigation plans and the contracting of insurance and hedging instruments to protect against market risks.

The risk management control system and its efficiency are supervised by the Audit and Control Committee, which advises the Board of Directors.

Excellent Connectivity

05

Connecting the country_

GRI 203-1

By providing excellent connectivity, we generate value for our customers by providing them with access to information, education, culture, business opportunities, and the myriad possibilities of digital life.

In 2017, we invested R$6,783.47 million in expanding our fixed and mobile networks, using Ultra-Broadband (via optical fiber) and 4G technology, increasing speed and quality to meet the needs of our customers.

Through this initiative, we contribute to the following SDGs:

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

Through the installation of new RBSs (radio base stations), popularly known as antennas, we expand the reach of our mobile signal. Currently, our 3G network covers 4,000 municipalities, the widest-reaching network in the country.

The focus of our expansion, however, is the 4G service, which provides greater capacity for data traffic and more speed, delivering the best customer experience. During 2017, we reached 2,084 new cities, totaling 2,600 municipalities, serving 84.5% of the Brazilian population.

Cities covered by 4G

516 (2016) +404% 2,600 (2017)
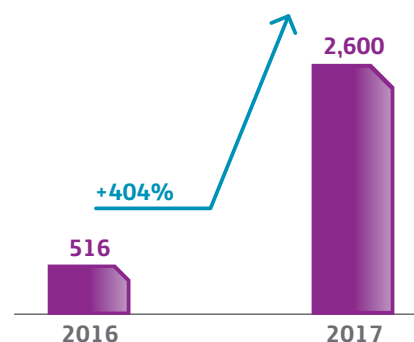
Regarding our fixed signal, we stopped investing in the old copper cables and focused on expanding our fiber optic network, which allows faster data traffic and higher quality. We have been investing in this technology since 2010, anticipating the growing need of consumers for increased use of data. Today, we are the only Brazilian operator that invests on a large scale to bring fiber to the consumer's home.

In 2017, we reached 16 new cities with fiber optics, including Florianópolis (SC), Garanhuns (PE), Pouso Alegre (MG), Vitória da Conquista (BA) and Volta Redonda (RJ), a total of 87 cities and 7.4 million customers by the end of the year

Cities covered by fiber optics

71 (2016) +23% 87 (2017)
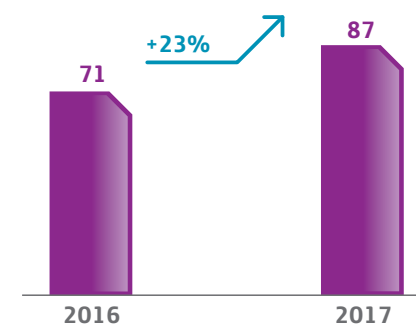
We also use fiber optics to deliver our HDTV and voice service, offering a complete and quality package of services to our customers.

We are clear that society will consume an ever-greater volume of data over the next few years. Brazil has an unmet demand for quality, which will grow as new digital services emerge. For this reason, we will continue to expand our networks in the coming years, using our big data tools (learn more on page 42) to locate the regions where our signal is most needed. We will, therefore, continue to contribute to the country's digital development.

4G+_

In line with our customers' increasing need for connectivity and data transmission, from 2017, we started to offer 4G+ (the commercial name for the 4.5G service, which offers speed up to twice as fast as 4G). The 4G+ anticipates some features of 5G, the next mobile signal generation, more stable, with faster internet and greater data transmission capacity.

For this, we use other bands of the electromagnetic spectrum to transmit our signal, such as the 700 MHz bandwidth, which was previously used for the transmission of the analog TV signal in Brazil. With the advent of digital TV, this bandwidth will be used for data transmission, allowing better signal penetration indoors and at a higher speed, improving the customer experience.

Today, the 4G+ signal is already available in 118 cities across the country.

Infrastructure management_

The SUSI (Unified Infrastructure Support System) Project, implemented in 2016, already resulted in benefits. SUSI includes monitoring and automation of infrastructure systems (Technical Stations) through peripheral mechanisms that control and measure energy consumption, air conditioning systems, etc., as well as physical access control (with the release of secure keys through Bluetooth system).

In 2017, we reached approximately 1,700 RBSs with access control implemented, preventing a total loss of R$10.8 million, resulting from theft, further ensuring the availability of our network.

Also in 2017, we reached 114 technical buildings with automation implemented in the infrastructure equipment, and we already had an energy efficiency gain

of R$949.5 thousand. This automation allows you to check if functioning of air conditioning systems or if the temperature in the equipment room is adequate.

This way, SUSI allows the reduction of costs with maintenance and operation of installations and the optimization of our energy consumption.

Through this initiative, we contribute to the following SDG:

7 AFFORDABLE AND CLEAN ENERGY

Sustainable site

In order to install a new RBS in an urban center without affecting the local landscape, we have developed a solution called Sustainable Site. The antenna is installed on top of equipment that is already part of the street infrastructure, such as poles, public phones and store façades, while the other equipment is installed underground.

In addition to increasing signal strength and improving the quality of the connection provided in cities, the solution causes little visual impact. Sustainable sites do not require a generator and do not use diesel, avoiding the emission of harmful gases and using less energy compared to traditional sites.

Customer
Experience Point_

Our distribution network has 295 own stores and 12,000 points of sale with authorized resellers throughout the country. In addition, our products are available at over 600,000 points, including retail chains and small businesses, which sell credit to our pre-paid customers.

We seek to offer the best shopping experience for our customers in our stores, with comfort, accessibility and innovation. We have adopted sustainable building model criteria, such as the use of LED lighting to reduce energy consumption and the use of furniture made with certified wood.

We also offer a range of initiatives in stores that can help reduce environmental impact, such as Eco Rating, Vivo Renova and Recicle com a Vivo (learn more on pages 77 and 78).

In line with our digitalization strategy, we have adopted the Sustainable Sale model in our stores. Instead of printing and signing contracts on paper, our customers read and

Through this initiative, we contribute to the following SDG:

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

sign their contracts digitally on a tablet, and the document is immediately sent to their email.

As well as reducing paper consumption, the Sustainable Sale model reduces costs and offers customers a more digital, less red tape and more agile shopping experience in our stores. In 2017, we reached the average mark of 650,000 monthly digital subscriptions, totaling 7.8 million in the year, and saving 117 million sheets of paper.

In 2017, we signed an agreement with the NGO SOS Mata Atlântica, establishing that, for every 23,000 sheet of paper no longer used in contracts, a tree will be planted in the

In 2017, we signed an agreement with the NGO SOS Mata Atlântica establishing that for every 23,000 sheets of paper we save with our Sustainable Sale, one tree is planted.

Future Forests Program. The program provides for the reforestation of degraded areas with native species.

By the end of 2018, 24,000 trees will be planted. This way, we will further increase our value generation to the environment: instead of wasting paper, we will encourage the planting of trees.

Connecting People

06

Customer Satisfaction_

GRI 102-43 / 102-44 / 103-1 / 103-2 / 103-3

The generation of value for our customers is essential for the long-term sustainability of our business. We are focused on improving the quality of our products and services, delivering new relationship digital channels and creating the best offer based on the expectations and needs of our customers. For this, we seek to establish a relationship of trust, based on the Promise to the Customer, which is divided into the premises of being more straightforward, transparent and fair throughout our relationship with them.

By the end of 2017, over 90 projects were implemented by several areas of the Company, resulting in the improvement of 72% of the main Quality indicators we follow, such as the reduction of complaints about billing and calls to the customer service center, as well as the improvement of arrival times for visit scheduled with customers.

In order to measure the perceived quality of our products and services, we monitor the Customer Satisfaction Index (CSI) and the Net Promoter Score (NPS). In 2017, we observed the continuous growth of these indicators, and the CSI reached its best historical result.

7.27 **+0.40** **7.67**

2016 **2017**

23 **+6** **17**

2016 **2017**
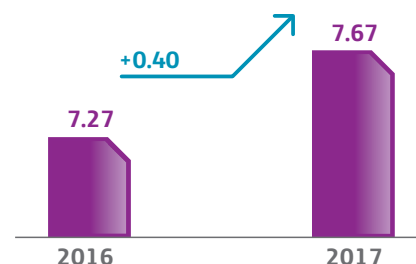
SCI (Customer Satisfaction Index)

Index calculated using a methodology that measures the perceived quality on a scale of 1 to 10 and is applied throughout the Telefónica Group, based on the American Customer Satisfaction Index (ACSI).
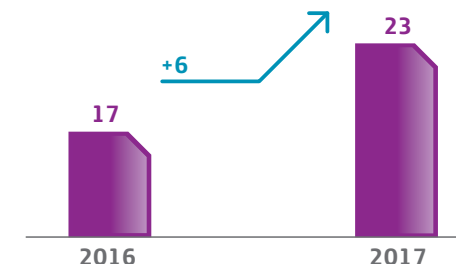
NPS (Net Promoter Score)

The NPS is calculated by subtracting the percentage of detractors (customers who respond with a score from 1 to 6) from the percentage of promoters (customers who respond with a score from 9 to 10), and is based on the question: "How likely is it that you would recommend Vivo to a friend or colleague? Using a 0-10 scale". This indicator is internationally adopted to compare different companies and market segments.

Digital channels_

In 2017, we implemented a series of actions aimed at improving customer service and focused on new digital channels and better service through the Call Center.

Our main initiative to digitalize the service is the Meu Vivo app, through which customers can ask questions, consult data consumption, change their plan, request a second copy of the invoice, among other functionalities.

Since its launch, the app has already been downloaded 28 million times, registering an increase of 10% in accesses and 52% in the number of active users in 2017.

With Vivi, our virtual assistant, we have improved our services through social networks. Using artificial intelligence, she can talk, clear doubts and respond

to customer requests that come to us through channels such as Facebook and Vivo's website. Today, Vivi is able to respond to more than 90% of our customers' inquiries. In 2017, it carried out 913,000 interactions, 29% higher than the previous year.

Meu Vivo unique users (million)

+46%
+52%

6.1
2015

8.9
2016

13.5
2017
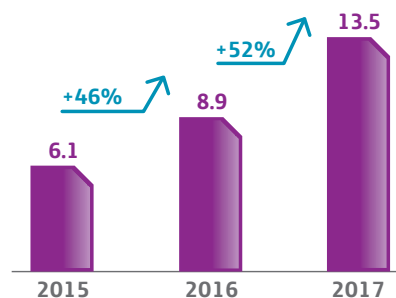
Meu Vivo accesses (million)

+146%
+10%

20.1
2015

49.4
2016

54.5
2017
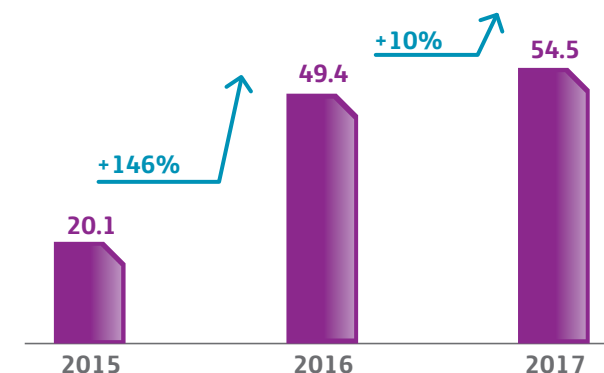
We advanced in the digitalization of our customer service by telephone. We focused on the humanization of Interactive Voice Response (IVR), the technology that interact with customers before moving on to a human assistant. We simplified, increased the number of services and gave a more humanized touch to our communication channels, facilitating self-care solutions. Therefore, the digital service was able to provide the assistance the customer needed in 75% of cases, with no human interaction, in certain segments.

If the customer still needs to be served by a human assistant, we also carried out initiatives to improve this kind of service in the call center. One of them is behavioral monitoring, which covers 100% of our operation and is aimed at how the attendants interact with the customers. We also carry out constant training to improve communication, including neurolinguistic programming.

Therefore, we managed to improve several indicators that we use to measure the quality of our service, such as scores given by customers after calls, the recall rate and call transfer requests.
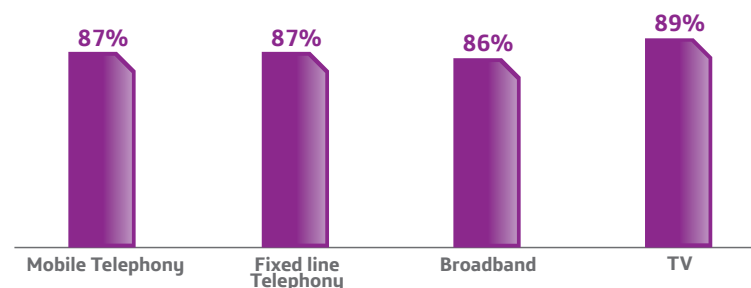
These initiatives resulted in a 23% reduction in call center demand and improvements in our Anatel Indexes.

IDA – Service Performance Index

Anatel indicator that evaluates the operators' activities in relation to criteria such as number of complaints, complaints dealt with within the deadline (5 working days) and number of reopened complaints.

	Mobile Telephony	Fixed line Telephony	Broadband	TV
DEC 2016	73	71	66	88
DEC 2017	93	79	76	90
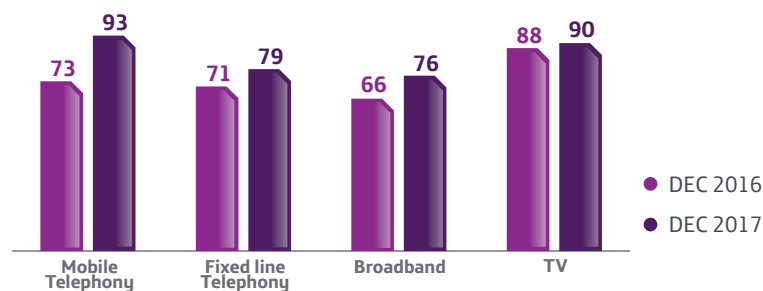
% Complaints at Anatel dealt with within 5 business days (Dec/17)

Mobile Telephony	Fixed line Telephony	Broadband	TV
87%	87%	86%	89%

In 2018, we plan to continue investing in our digital channels, implanting another stage of artificial intelligence in the telephone service, this time with cognitive capabilities and aligned with our Fourth platform (learn more on page 44).

DNA Vivo_

Our main initiative to develop the Promise to the Customer topic in the coming years is DNA Vivo. Launched in late 2017, aimed at standardizing all of our customer contact points, creating a single DNA of excellence in service.

It covers service in store, call centers and GNs, as well as technicians who visit customers' homes, seeking to establish the same culture of service, guided by four main characteristics: reliable, easy, charming and efficient.

The project should also involve the relationship between employees who do not have direct contact with customers, as well as our entire business.

Digital trust_

GRI 103-1 /103-2 / 103-3

The increasing digitalization of our operations and of our customer relationships leads to greater responsibility for the privacy of information and transparency in how we manage data. Therefore, Digital Trust is one of the strategic pillars of our Responsible Business Plan.

The Telefónica Group's Global Privacy Policy guides our actions in relation to this topic, and covers the Company's activities in all countries in which it operates. The document describes what information we use and why, in addition to clarifying how and where we handle them. To govern this process, we rely on the Global Privacy Committee, created in 2013 and responsible for implementing and updating the Telefónica Group's Global Privacy Policy.

The implementation of the Digital Trust commitment in Brazil is carried out jointly by the Big Data, Information Security, Legal, Regulatory, Human Resources and Sustainability areas. In addition, based on our Data Protection Policy, our employees reinforce, every year, the commitment by signing the confidentiality agreement.

Our data centers are certified according to ISO 27000 and 27001 standards, an international reference for information security management. We also have regulations, internal procedures and awareness-raising initiatives that ensure the privacy of information and restricted access to data, as established by the Global Privacy Policy.

In 2017, we began to implement the Global Course on Privacy and Security in Brazil, with the goal of training 100% of our employees by April 2018 in privacy and data security. We also held a workshop created specifically for suppliers addressing security and privacy of information, which had 50 participants.

Privacy Center

In January 2018, we relaunched our Privacy Center, a space within Vivo's website dedicated to bringing detailed information regarding the privacy and security of our customers' data. There, customers can learn more about what information we collect (such as registration data, traffic volume and usage history of our products) and which ones we do not collect (browsing history and social network activities). The goal of this data collection is to always offer better services, improving the performance of our network and products.

We also have information about consent and their rights of access, rectification, opposition and cancellation of personal information, as well as an explanation on how parents can restrict content for underage children.

The new Privacy Center was writing in a more straightforward language and has a more intuitive navigation, increasing the Company's transparency in relation to privacy and data security.

Security_

GRI 418-1

In addition to focusing on the internal use of customer information, we also have an area dedicated to ensuring the security of this data, in order to avoid fraud, leaks and cyber attacks.

The security area sets out a number of procedures to increase security and prevent information leakage, providing training with the Company's sensitive areas and monitoring their performance. We also have an audit work to continuously monitor accesses to this information.

We also require a series of conformities from our suppliers who deal with customer information, particularly related to the servers and systems they use. We constantly analyze their tools for potential failures.

In addition, in 2017, we began to implement the Elliot project, which uses Big Data to combat fraud with our customers' data.

As a result of these initiatives, we did not record any leakage of important information related to our customers during the year.

During the year, we created a new Digital Security department, which brought together under one structure a series of activities from the IT and networks area, aimed at protecting the Company from cyberattacks.

Cyberattacks

In 2017, the Telefónica Group was targeted by a cyberattack by the "Wanna Cry" ransomware, which hijacked files from our servers in Spain. The damage was not significant in Brazil, as the Company followed a series of action protocols, quickly notifying operations and enabling fast crisis management procedures. We have proved that we are prepared to defend ourselves – and our customers – from this type of attack.

Dialogando_

The Dialogando (Dialoguing) platform gathers Internet and digital behavior experts, educators and regular users to reflect on the use of digital technologies and their consequences – positive or negative.

The portal brings diverse content on the conscious and safe use of the internet and electronic devices, encouraging the reflection and raising awareness of our stakeholders. The NGO SaferNet, a benchmark against crimes and violations of Human Rights on the Internet, is among the main partners of the platform.

In the last three months of the year, the portal had an increase in accesses of more than 45%, totaling over 344,000 unique visits.

The platform was created in Brazil and has now expanded to several other countries such as Spain, Ecuador, Mexico, Uruguay, Venezuela, Colombia, Nicaragua, Guatemala and Panama. In 2017, it was recognized by the Spanish magazine Actualidad Económica as one of the 100 Best Ideas of 2017, and won the Spanish Diversa Global award for its LGBT community content.

Through this initiative, we contribute to the following SDG:

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Recognition

In 2017, Portal Dialogando received the Aberje Award in the Digital Media category. It is one of the most traditional recognitions of corporate communication and best practices in business.

Issues addressed in the Portal Dialogando in 2017

- Digital waste
- Cyberbullying
- Cybersecurity
- Exposure in social networks
- Diversity
- Use of mobile phone while driving
- Children on the internet
- Technology in education

By 2018, we plan to further increase the project's visibility, qualified traffic and customer loyalty by holding a digital conference in TED talk format, broadcast live in 13 countries.

Sustainable Innovation

07

Digital transformation_

GRI 103-1 / 103-2 / 103-3

Technological innovation is the main tool for positioning ourselves as a more efficient Company, aimed at improving the customer experience and prepared for future challenges. Through innovation, we want to become an Onelife Telco and collaborate for the digital transformation of the country.

Therefore, the Telefónica Group has a global strategy structured to promote sustainable innovation, which takes into account the development in fronts such as Big Data and Artificial Intelligence. These fronts are important because in our day-to-day activities, we collect a large amount of data from our interactions with customers.

Through Big Data, we store and process this information quickly and, through Artificial Intelligence, we learn from them.

In 2017, these technologies allowed us to develop a number of projects in the End-to-End Digitalization area, as it affects our entire operation, from the internal processes to the contact with the customer.

Through this initiative, we contribute to the following SDG:

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Big Data for social development

Big Data for Social Good is a program of the Telefónica Group, in partnership with GSMA, an international association that represents telecommunications companies, the UN, with the aim of showing how big data solutions can also have a positive impact on society. Within the scope of this program, in 2017, we started the development of a project to generate estimates on the presence of pollutants in the city of São Paulo. To this end, we will collect information on population displacement based on the anonymous data of the customers in our network and cross it with the air pollution information from CETESB, helping in the creation of public policies that improve mobility and air quality in the city of São Paulo.

The proof of concept was presented in September by the CEO of Telefônica Brasil at a parallel meeting held during the United Nations General Assembly in New York.

We implemented, for example, the Vivo Next system, which integrates our entire sales process, catalog of offerings, revenue cycle and customer service. It allows to point out the best service or product to be offered to customers depending on their profile, among a series of other improvements in their experience and service. The project should be maintained in 2018, leading to the complete integration of this information.

This digitalization process enabled us to increase the use and efficiency of the services provided by the Meu Vivo app and Vivi, the virtual attendant (learn more on page 36), as well as expanding the adoption of digital bills (more on page 77).

In addition to leading to important advances to our internal processes, digitalization also supported the expansion of our networks, which was based on information about our customers' access (learn more on page 30).

Sustainable Innovation Management

In 2017, we implemented a Sustainable Innovation management in Brazil, in line with Telefónica's global structure, with the aim of promoting sustainability as a driver of innovation, acting across all other areas in order to develop solutions that generate social and environmental value and to achieve the SDGs (learn more on page 20), within the Company's current digital transformation process.

In order to achieve these goals, management's strategy is divided into three pillars:

- Connect who is disconnected
- Protect the planet
- Development of sustainable societies

Fourth platform_

Until recently, our business was built on three interconnected platforms. The first one covers the network structure we use to run our services. The second includes infrastructure and IT for the operation. And the third platform is comprised of the products and services we deliver to customers.

In recent years, however, we have been investing in the development of our fourth platform, which is transversal to the other three, allowing the application of big data tools in each of them and the creation of innovations and benefits in all areas of the business.

4th Plataforma
With big data tools, it enables the analysis of data that transmits through on our other three platforms to create innovative solutions that enhance the customer experience

3rd Platform
Products and services

2nd Platform
Infrastructure and IT for the operation

1st Platform
Connectivity structure (network) for the operation of services
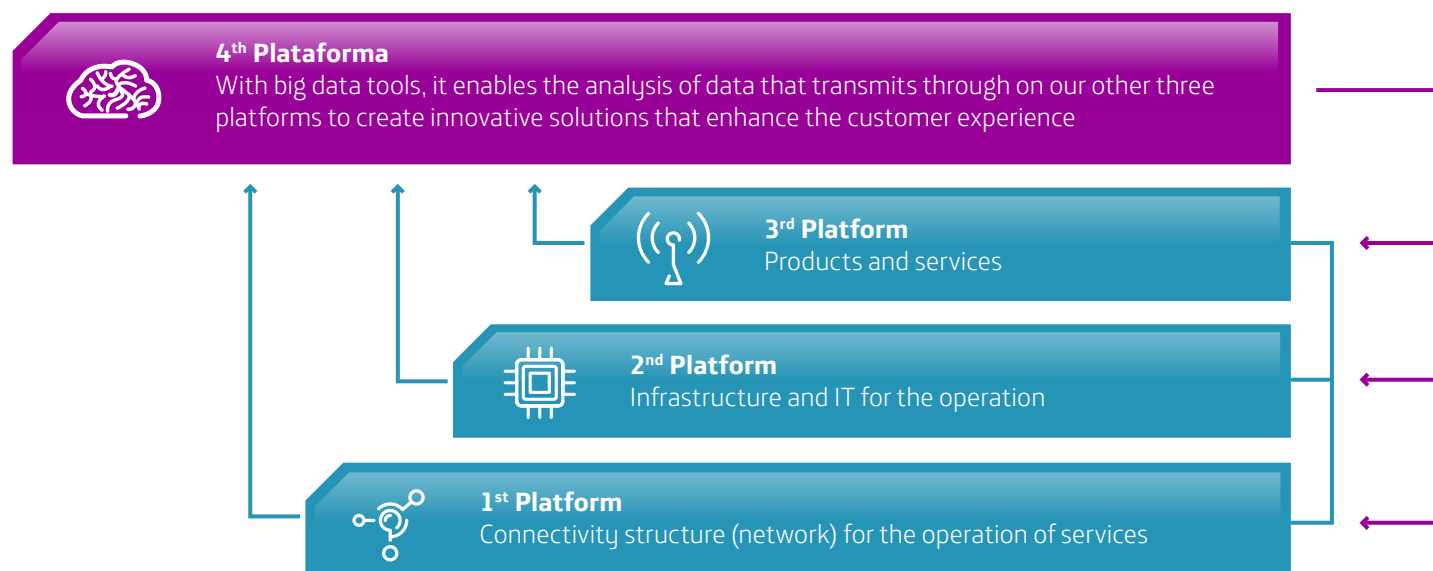
Through it, we will be able to identify where signal availability is most needed and plan the expansion of the network more efficiently, for example. It will also be possible to detect massive failures in the network with more agility and to quickly act on the correction of problems.

It also gives the opportunity to understand consumption patterns and use data to create and offer products that are increasingly targeted to meet the needs and demands of customers.

In 2017, we launched the 4th Platform Board, which brings together a pool of employees dedicated to the creation of technologies and solutions within this new proposal.

Aura_

The digitalization process we are undertaking is expected to reach its peak in 2018, with the launch of Aura – our artificial intelligence tool for interaction with customers.

With the application of cognitive and big data capabilities, Aura can communicate with our customers intuitively, allowing the management of their data in a transparent and secure manner. The tool will be voice activated, and will respond to customer demands using human language.

From the interaction with our 4th Platform, Aura will allow quick access to customer data, personalization of services and the agile solution of demands.

Aura, Telefônica's artificial intelligence tool

Natural language

Through cognitive intelligence, it learns the customers' language

Real time

Helps the customer manage their digital life with Telefônica in real time

Multi-channel

It will be available in the main channels used by customers

Personalized service

It will access customer data to provide personalized customer service

Aura was officially launched in February 2018 in six countries – including Brazil. In its early stages, the solution of demands regarding data consumption, bills, notification of problems and access to the list of services and data history are among its main features. As the tool is constantly evolving, it should gain new features over the next few years, such as the ability to interact with other virtual attendants.

Digital Services_

In line with the digitalization process, we are also investing in a more diversified portfolio for our Corporate Segment (B2B), made up of retail, services and industry. As well as offering our voice, connection and data services, we have created a range of digital services in order to deliver complete solutions for these businesses.

Through this initiative, we contribute to the following SDG:

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

IT solutions: ensure permanent technological update and the control, integration and standardization of the technologies used.

Cloud services: in partnership with Huawei, allowing companies to store databases and host websites and applications in the cloud.

Network management: enables the management, security and good performance in data, voice and video sharing between business units.

Cybersecurity: provides a structure for the prevention of data theft and attacks, with the support of tools such as antivirus, secure browsers and mobility security solutions.

IoT_

We also invested in other digital service fronts in 2017, such as the M2M (Machine to Machine) technology, that establishes the connection of several physical objects in a network. Also referred to as IoT (Internet of Things), it allows customers to track and manage their assets in real time.

How IoT works

The Internet of Things is based on the communication between physical objects through sensors and connections. In this type of network, all components can be controlled by the same central computer.

In a house, for example, this computer could control all the appliances.

M2M applications offered by Telefônica Brasil

- Fleet Control
- Agriculture
- Security
- Smart Cities
- Energy Efficiency
- Industry

In 2017, we consolidated our leadership in the M2M market, with a share of 41.5%.

This market is still in its early stages, and has the potential to grow more and more with increased connection availability, ability to analyze large volumes of information with Big Data and the use of sensors on equipment and tools.

Aware of the strategic value of this technology, we created, in late 2017 and in partnership with Huawei, the Open IoT Lab, a laboratory aimed at the development and testing of new IoT technologies.

Within this line of action, we launched Vivo Smart Energy in 2017, which offers companies the intelligent management of electricity consumption in their operations. Through IoT, it allows the automation and control of lightning and air conditioning temperature, always ensuring minimal energy consumption according to the building use requirements.

We also use our knowledge in IoT to help São Paulo City Government structure the City Cameras project, which provides for the installation and integration of 10,000 security cameras throughout the city. The project should help fight crime and reduce vandalism.

Telefônica Open Future_

Telefônica Open Future (TOF) is a global program that includes the initiatives developed by the Telefónica Group related to open innovation and entrepreneurship. The program follows a prospecting and business investment model, seeking innovative solutions produced in society, in the market and in academies, as well as establishing partnerships with public and private institutions for the generation of shared value.

In Brazil, the TOF program has five initiatives aimed at encouraging new talents, developing startups and investing in innovative solutions. Since the beginning of Telefônica Open Future, we have already invested in approximately 800 companies – 71 in Brazil.

The program's first initiative is the Pense Grande project, conducted by Telefônica Foundation (learn more on page 55) and aimed at encouraging entrepreneurship in less-favored areas.

> Through this initiative, we contribute to the following SDG:

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Crowds are partnerships with universities or institutions that promote entrepreneurship to pre-accelerate companies, encouraging potential entrepreneurs to get their ideas off paper. To this end, we apply our business development methodology in the solutions developed in innovation centers and incubators, giving opportunity for good ideas that can lead to startups.

In Brazil, we have six Crowds spaces:

- **Vale da Eletrônica**, in partnership with Inatel (National Institute of Telecommunications), in Santa Rita do Sapucaí (MG), and Ericsson.

- **Crowd Londrina**, in partnership with UEL (State University of Londrina) and Sebrae Paraná.

- **Hotmilk PUCPR**, in partnership with Pontifícia Universidade Católica do Paraná (PUCPR) and the accelerator Hotmilk.

- **Crowd Rio**, developed in partnership with UFRJ (Federal University of Rio de Janeiro).

- **Crowd Facens Sorocaba**, in partnership with FACE - Centro de Empreendedorismo da Facens (School of Engineering of Sorocaba), in Sorocaba (SP).

- **Campinas Open Future**, in partnership with InovaUnicamp, the innovation agency of Unicamp (State University of Campinas), and CPQD (Telecom Research and Development Center).

The TOF program's third initiative is Wayra, which is the first to financially invest in companies in exchange for a minority stake. In order to receive this investment, startups need to be in a more advanced development stage, with a product already developed and preferably with first paying customers (learn more about Wayra on page 49).

Finally, we have investment funds for companies with accelerated growth:

- **Telefônica Ventures**, which invests in companies that represent a strategic opportunity for Telefônica.

- **Amerigo Fund**, which invests in professional venture investment funds in Europe and Latin America, which in turn invest in startups.

Telefônica Open Future: open innovation and entrepreneurship.

Wayra_

With 11 academies in 10 countries, Wayra is Telefónica Group's seed capital initiative, which makes investments from R$200,000 to R$500,000 per startup in exchange for a minority stake. In addition, we offer more than R$200,000 in services, such as infrastructure, mentoring, training, access to the market, customers and investors.

It is a space for the promotion of open innovation in search of solutions in the market that can generate value in the medium and long term for Telefônica, other companies and society. The goal of the investment is to generate a win-win process that leads to the creation of new products and improvements in Telefônica's operation, while delivering the revenues that the startup needs to grow and consolidate.

The academies are located in Spain (Barcelona and Madrid), United Kingdom (London), Germany (Munich), Mexico (Mexico City), Venezuela (Caracas), Colombia (Bogotá), Peru (Lima), Brazil (São Paulo), Argentina (Buenos Aires) and Chile (Santiago).

Wayra has been present in Brazil since 2012, and has already invested over R$10 million in 64 startups from different segments, such as Cloud, Fintech, Agtech, LegalTech, Big Data, IoT, among others.

Below are some of the projects supported by Wayra:

Cattle management platform, which allows the collection and analysis of data for cattle breeders through an application. Today, after Wayra's investment, the company already has 32,000 users around the world, with offices in Brazil and the United States.

Startup that allows the identification, negotiation and repayment of debts through the internet. It has partnerships with large financial institutions, helping them to clean their customers' names without embarrassment, gaining back the consumer confidence and recovering credit for companies.

ProRadis offers software for management of clinics, laboratories and hospitals, providing services to over 200 institutions. ExamineJá facilitates access to health care, reaching 7 million users. The companies belong to the same group, and the support received led to the strengthening of operations and a partnership with Vivo in 2017.

Online platform aimed at solving technological problems through a collaborative community of Doctors in Technology. The goal is to make a link between IT professionals and people who need their services. After Wayra's support, the platform has 12,500 technicians spread out in more than 700 cities across Brazil.

In 2017, Wayra began to strengthen its focus on women's entrepreneurship, through the Women's Age movement, led by the Telefónica Group. The initiative carries out a series of actions throughout the year to strengthen the issue, such as meetings between women founders of businesses at different stages of development, lectures and mentoring, and the establishment of an indicator to monitor the number of female employees at the supported startups. In 2017, the initiative also sponsored the home of women's entrepreneurship, held by SP Negócios and TechSampa, of the São Paulo City Government.

For 2018, we will implement the Sustainability in the Startup Ecosystem initiative, which aims to promote a culture of positive social impact in the companies invested by the program. The goal is to evaluate companies also based on their potential to generate value in sustainability and to provide mentoring on the subject, in order to make them increasingly aligned with the future.

Visões de Futuro +15_

Since 2014, Telefônica Foundation (learn more on page 54) has been investing in the Visões de Futuro +15 (Visions of the Future +15) platform, which is based on studies and research to map and generate knowledge about the main trends, movements, behaviors and technologies that will have an impact on society over the next 15 years.

Through multiple methodologies and innovative tools, such as the analysis of communication in social networks through Big Data and dialogues with cultural hackers, the platform can identify movements in search of new educational, behavioral, marketing, health, urbanization and diversity models, etc.

Trends identified by Visões de Futuro +15

Alternative Therapies

Nanotechnology

Gene therapy

Social Business

Basic income

Emotional skills in education

Programming in basic education

Diversity in leadership positions

Blockchain

Robotics

The study supports our Risk and Opportunities Management, helping to define our strategy for the coming years. It is also made available to society, opening up a space for discussion about the future: what world will be built from the technology we develop today?

Society

08

Contribution to Progress_

GRI 103-1 / 103-2 / 103-3 / 203-2

Our business has two characteristics that help contribute to the Company's value creation for the entire society. The first one is the size of our operation, which enables the generation of value for customers, employees and suppliers across the country, causing a direct impact on the Brazilian economy.

On the other hand, we are a telecommunications company focused on connecting people and businesses. Since Brazil is still a country with significant problems regarding its internet coverage, we fulfill the important social role of integrating new communities into the digital society, directly impacting local GDP.

A study by PwC was able to map and quantify our contribution to the GDP and to job creation in Brazil. In 2017, the survey showed that our performance contributed 3.62% of the national GDP and 297,000 jobs were generated, representing 0.32% of total in the country.

In 2017, for each employee we hire in Brazil, we contribute to the generation of another 7.47 vacancies in the job market.

Impact on GDP (€ million)
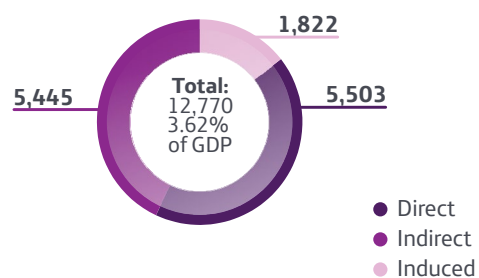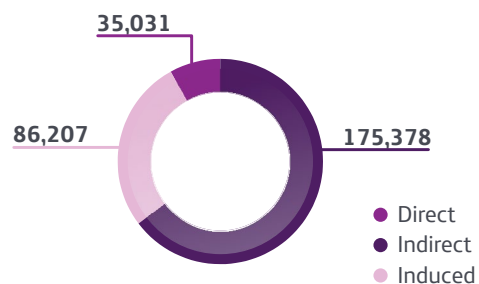
1,822

5,445   5,503

Total:
12,770
3.62%
of GDP

● Direct
● Indirect
● Induced

Impact on job creation

35,031

86,207   175,378

● Direct
● Indirect
● Induced

54

Telefônica Foundation_

The Telefônica Foundation is a social responsibility initiative of the Telefónica Group, focused on education-based innovations to support the country's development. The initiative was implemented in Brazil in 1999, and is part of a network consisting of 17 other foundations in Europe and Latin America, members of the Telefónica Group.

It is through their performance that the Company carries out our private social investments. In 2017, it invested more than R$56.3 million in its programs, benefiting 1.2 million people.

The Foundation projects are based on the use of the technologies we have developed in our business to create new teaching-learning platforms that can be used to improve the training of teachers and students in Brazil.

The Connected Schools project, for example, offers an online education platform for extension courses for teachers from all over the country, certified by renowned institutions such as the Federal University of Rio Grande do Sul, the Singularities Institute and the Vanzolini Foundation.

Through this initiative, we contribute to the following SDGs:

| 1 NO POVERTY | 4 QUALITY EDUCATION | 8 DECENT WORK AND ECONOMIC GROWTH | 10 REDUCED INEQUALITIES |

In 2017, more than 62,000 people were registered to participate in the project, representing about 4% of the total base of primary and secondary teachers in the country.

Other projects are based on computer programming education and the entrepreneurship culture for disadvantaged young people, totally in line with the value generation proposed in our business model.

In 2017, the Foundation strengthened its relationship with the government, closing a partnership with the MEC (Ministry of Education), in addition to the terms of cooperation signed with 25 state secretariats and 66 municipalities.

More than R$56.3 million were invested, benefiting over 1.2 million people.

Foundation Projects

Education

Entrepreneurship

Volunteering

Public	Teachers	Children	YOung People	Employees
Programs	**Digital School:** free search platform with educational content curated by specialists.		**Programaê:** a cultural movement created in partnership with the Lemann Foundation, aimed at promoting computer programming education to kids and young people.	**Volunteer Program:** we offer employees the opportunity to participate in in-person or distance volunteering actions throughout the year in different areas.
	Inova School: Promotes innovative methodologies to be used beyond classrooms, offers teachers online and in-person training and disseminates the adoption of innovative practices.			
	Digital Class: global initiative to provide quality digital education for children in Africa, Southeast Asia and Latin America. In Brazil, the project offers training for teachers, digital pedagogical contents, technological equipment and monitoring in schools.		**Pense Grande:** we encourage social entrepreneurship as an opportunity for the development of leadership in young people, in order to seek solutions for their communities.	**Game do Bem:** online game available to employees and their guests, with social and environmental missions related to the practice of citizenship and SDGs.
	Connected Schools: contributes to the continuing training of teachers by offering free and certified online courses with innovative content to support their pedagogical practice.	-		
Number of people benefited	44,883	1,028,589	182,014	9,278

Suppliers

09

Responsible suppliers_

GRI 102-9 / 103-1/ 103-2 / 103-3 / 204-1 / 308-2 / 409-1 / 414-2

At Telefônica Brasil, we believe that one of the key ways to generate value for society is through a responsible relationship with suppliers, reducing social and environmental risks and promoting the adoption of good management and sustainability practices. We consider these stakeholders as a central part of the capital stock of our Business Model (learn more on page 13).

Therefore, identifying and managing the risks associated with supplier activities in our operations is an essential to maintaining compliance with legal requirements, customer satisfaction levels and our reputation.

Suppliers receive the Sustainability Policy for the Supply Chain and the Responsible Business Principles in our contracting processes, and only the companies that commit to these documents and sign our anti-corruption certificate participate in the competition process. We also adopt contractual clauses so that our partners are committed to working in strict compliance with tax, labor and environmental laws.

In 2017, we partnered with 1,690 suppliers, with contracts totaling approximately R$25 billion. Our supply chain includes the most diverse segments, such as Telecommunications, Call Center, Transportation, Furniture, Electrical Energy and Training, mainly comprising of Brazilian companies.

Through this initiative, we contribute to the following SDGs:

8 DECENT WORK AND ECONOMIC GROWTH

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

17 PARTNERSHIPS FOR THE GOALS

Volume of business with suppliers	2017
Total number of Suppliers (thousands)	1.69
Local Suppliers	97.63%
Total spend with suppliers (R$ billion)	24.98
Expenses with local suppliers	99.62%

In order to manage our supply chain, we focused on the most significant suppliers to the Company's operation, either because of the risk they bring or because of their impact on our business. Our relationship with these suppliers follows three pillars:

Monitoring	Training and development	Partnership and innovation

Regarding Monitoring activities, the Telefónica Group has globally joined the JAC (Joint Audit Committee), a coalition involving the world's largest telecom companies to assess the compliance of their shared supply chains. JAC audits these companies' main suppliers, including some Brazilians. In 2017, three suppliers were audited in Brazil.

Minerals from Conflict Zone

We have no direct business relationship with mineral extraction suppliers, but we work to strengthen control over these materials in our value chain. Our policy is based on the Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, of the Organization for Economic Co-operation and Development (OECD), which we pass on to our suppliers.

We are partners of the Ecovadis platform, which has a proprietary methodology for assessing and monitoring the social and environmental performance of suppliers. This initiative is active in 110 countries and scores companies that sell inputs and provide services to large companies. In 2017, we encouraged our strategic partners to adhere to this platform and seek improvements in their performance. By 2018, participation in the platform will be mandatory for some risk suppliers.

	2016	2017
Suppliers assessed by the Ecovadis methodology	0	14

Since January 2017, we have implemented a monitoring work of critical suppliers to the Environmental Management System (EMS), which enables a better control and preventive actions against legal environmental risks associated with the activities of Telefônica's suppliers, meeting the requirements of ISO 14001. Currently, we have 199 monitored supplier contracts, and 79 action plans being supervised.

	2016	2017
Suppliers evaluated in EMS	0	199

Regarding privacy and data protection, we monitor all suppliers involved in this topic, making visits and generating action plans for possible adjustments. In 2017, we made 57 compliance visits.

	2016	2017
Privacy and information security audits	52	57

In relation to the Training and Development pillar, the Sustainability Policy for the Supply Chain provides guidelines for our suppliers, and a Sustainability Meeting is annually held for these stakeholders.

In 2017, we carried out a review of the Sustainability Policy for the Supply Chain, which now includes more items such as minerals from conflict zones and ISO 14001 certification.

Sustainability Policy for the Supply Chain

We are committed to act with the highest level of discipline, objectivity, transparency and professionalism in our relationship with suppliers.

Minimum criteria for responsible business

Any individual, company or organization that wishes to be part of Telefônica's supply chain must comply with the Minimum Criteria for Responsible Business and share this commitment with its subcontractors

Ethics

- Compliance with the law
- Anti-corruption
- Conflicts of interest
- Complaints Channel

Privacy and Confidentiality of Information

- Information
- Personal data

Environmental

- Life cycle and preventive measures
- Environmental policy
- Environmental management
- Climate change
- Waste
- Hazardous substances and chemicals
- Consumption of materials and resources and air emissions

Social

- Employment relationship
- Working hours
- Salary
- Forced labor and human trafficking
- Freedom of association and right to collective bargaining
- Non-discrimination
- Health and safety conditions
- Minerals from conflict zones

The annual Sustainability for Suppliers meeting involved 122 strategic suppliers, and addressed issues such as: social and environmental risk management in the chain and compliance in business relations. We also held a specific meeting for suppliers related to the information security and privacy issue (learn more on page 38).

During the year, we also made available a consultation channel through which suppliers can anonymously ask questions related to compliance with our Responsible Business Principles, in addition to the Company's already existing Complaints Channel of the Inspection Team.

Regarding Partnership and Innovation, we work together on a number of projects to improve the operational efficiency and the sustainability of their business. Among them is the Eco Rating Project (learn more on page 77) and the Global Workshop on Energy and Climate Change (learn more on page 76).

We also developed an Electronic Signature Project, which digitalized the entire Supplier contracting process, reducing paper consumption, facilitating information management and improving protection against leakage and fraud. The project is part of the partnership with the NGO SOS Mata Atlântica (learn more on page 33), which establishes that one tree is planted for each 23,000 sheets of paper we no longer use in the process.
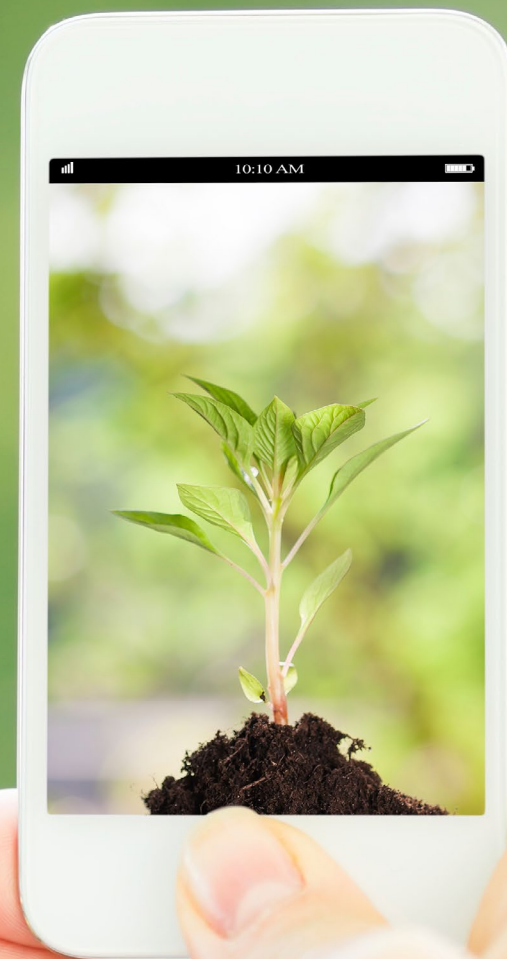
Ally Management_

GRI 102-9 / 103-1/ 103-2 / 103-3 / 308-2 / 409-1 / 414

We rely on a large number of service providers and employees in our operation. This is explained by the nature of our business as a telecommunications company and is compliance with the law that governs the sector in Brazil. Due to the importance these companies and employees have in our operation and in the relationship with customers, we call them allies.

In 2017, we had 450 suppliers providing this type of service and 2,016 dealers, totaling 125,517 allies acting in our operation.

Area	Number of Allies
Call Center	46,042
Dealers	24,732
Other	17,208
Health professionals	124
Network	37,411
Total	125,517

Ally Management is the area responsible for monitoring these suppliers' compliance with legal requirements, safety standards and commitment with the Responsible Business Principles.

In order to evaluate their social impact, we carried out document monitoring in 210 of these suppliers, in search for pending payments on social charges.

This area is also responsible for conducting on-site audits every two months to verify compliance with labor, social security and safety at the workplace legislation by these suppliers.

Inspections on location are also held in partnership with the Telefónica Group, focusing on the sustainability of these suppliers.

The main impacts observed in these assessments are: health and safety, environment, ethics, slave and child labor, human resources and others.

	2016	2017
Allies' Sustainability Audits	10	21

Employees

10

Valuing our employees_

GRI 102-8 / 103-1 / 103-2 / 103-3 / 401-1

At Telefônica Brasil, we recognize the crucial role employees have in the Company's long term sustainability, serving as the driving force for the country's digital transformation. Therefore, it is important to have an engaged team with talent and values in line with our guidelines, committed to breaking paradigms in support of business innovation.

In order to retain this team, it is essential to create value for employees, through benefits, training, internal recognition and a diverse and comfortable environment, where they feel free to be who they are.

To this end, we developed a work plan for the next three years, aimed at mapping the points of their journey, identifying where their experience with the Company can be improved.

Together with the DNA Vivo project (learn more on page 37), we want all of our points of contact with employees to follow the same characteristics: easy, efficient and charming.

Through this initiative, we contribute to the following SDG:

8 DECENT WORK AND ECONOMIC GROWTH

Valued People

The Telefônica Group develops the Valued People Program with the aim of recognizing employees at different levels of the organization. Through it, any employee can recognize a colleague, at any time, by sending virtual medals, which are recognized by the Company's management. In Brazil, more than 47,400 employees received recognitions of this type. The program also encourages recognition by participating in corporate projects and volunteer actions.

At the end of 2017, 33,622 effective employees[1] were part of our staff, distributed as follows:

Employees by gender

Total: **33,622**

42%
58%

● Women
● Men
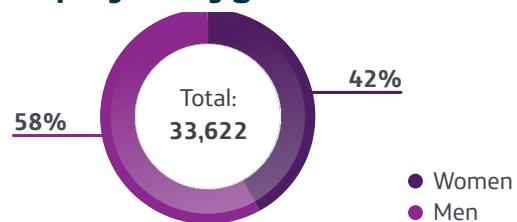
Employees by age group

Total: **33,622**

6%
32%
62%

● Under 30 years old
● Between 30 and 50 years old
● Over 50 years old
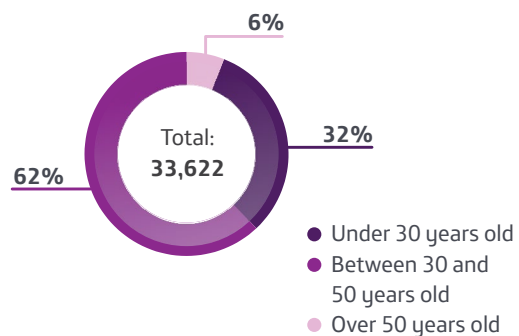
[1] Refers to the total number of Vivo (TBRA) employees.

Employees by state

RR 26
AP 24
AM 132
PA 264
MA 115
CE 61
RN 53
PB 1.912
PE 76
AL 193
SE 574
62
AC 50
RO 56
PI
TO
BA
298
MT
DF
111
651
644
GO
1.106
MS 324
MG
ES
SP
RJ 414
PR 8.386
RS 1.139
SC 777
1.997
1.311
12.882

In addition, we have 39 interns and 451 apprentices, totaling 34,112 employees throughout the country.

We also aim to ensure that service providers have the best experience in their contact with the Company, applying the same values that guide the management of employees to our 125,517 allies (learn on page 61).

In our search for new employees, we look for people who share our culture, who can cooperate with the changes that we have made in recent years, especially with regard to digital transformation. Therefore, 7,652 new employees were hired in 2017, with a hiring rate of 23%.

Hiring and dismissals in 2017				
Category	Number of employees hired	Hiring rate	Number of employees dismissed	Dismissal rate
Men	3,856	20%	3,742	19%
Women	3,796	27%	3,619	26%
Under 30 years old	4,440	41%	3,471	32%
Between 30 and 50 years old	3,124	15%	3,676	18%
Over 50 years old	88	5%	214	11%
Total	7,652	23%	7,361	22%

Another highlight of our HR management in 2017 was the resumption of the Trainee Program, which has been inative in recent years due to the integration process with GVT. Through the program, 31 young talents were selected to compose our team.

Vem de Você

In 2017, we launched the Vem de Você (It Comes From You) Program, which seeks to value the diversity and authenticity of our employees, embracing different ways of dressing and behaving. The intention is for people to feel more comfortable expressing their personality in the work environment.

Diversity_

GRI 103–1 / 103-2 /103-3 /405-1 /405-2

We believe that our team's diversity is a key factor in stimulating our creativity and innovation capacity, creating an environment with different ways of thinking. We also understand that in order to satisfactorily serve our customers, our employees should reflect the full diversity of Brazilian society.

Through this initiative, we contribute to the following SDG:

5 GENDER EQUALITY

As a result of our global strategy, we implemented a Global Policy for Diversity and Inclusion, which establishes the search for internal diversity in the following aspects: cultural, gender, race, sexual orientation, generation, religion, ability and disability. We are committed to offering equal career opportunities for women, with goals monitored quarterly by the Global Diversity Council.

In June 2017, we started Telefônica Brasil's Diversity and Inclusion Program, with the aim of promoting an inclusive culture and an open internal environment where everyone is welcomed in their singularity, which allows us to value the best professionals and recognize the best talents.

The Diversity strategy is based on the principles with which we are committed, such as the Women's Empowerment Principles and SDGs (learn more on page 20).

Currently, the Company's main goals regarding Diversity are:

To increase women's participation in the organization, reaching 30% of the executive staff by 2020.

To increase the representation of employees aged 30 or under, reaching 25% by December 2018.

To hire more people with disabilities.

At the end of 2017, our staff was divided as follows::

Diversity of Telefônica Brasil's employees						
Functional Level	Total	Men	Women	Under 30 years old	Between 30 and 50 years old	Over 50 years old
Board of Directors and Fiscal Council	15	94%	6%	0%	13%	87%
Directive managers	118	82%	18%	0%	82%	18%
Middle managers	3,467	69%	31%	8%	84%	8%
Other	30,037	57%	43%	36%	59%	5%

With a focus on valuing diversity, the gender of our employees is not a factor in the definition of their remuneration, valuing meritocracy and the attraction and retention of talent. In 2017, the ratio between the compensation paid to women and men was

Functional Level	Ratio between the average salary of women and men	Ratio between compensation[1] paid to women and men
Directive managers	97%	97%
Middle managers	94%	95%
Other	83%	82%

[1] Includes salary, Profit Sharing Program/Bonus and Variable Compensation

In 2018, we will continue to strengthen the issue among our employees and the general public, through the launch of a diversity platform that will guide and disseminate the Company's actions.

Training_

GRI 404-1

All the changes, breaking of paradigms and digital transformations that Telefônica Brasil has been promoting in recent years must be reflected in our employees' behavior and knowledge. Therefore, we have invested in a series of in-person and online training to keep them updated over the years.

In 2017, we invested R$67.2 million in the qualification of our employees, totaling more than 2 million hours of training, with an average of 53.25 hours per employee.

Average hours of training per employee	
Men	44.97
Women	64.29
Directive managers	21.70
Middle managers	31.42
Other	55.56
Total	**53.25**

Our training was focused on the promotion of digital mindset, highlighting the launch of the Digital Learning platform, with online courses on subjects such as innovation, technology, career and self-development.

For the third consecutive year, we held the Self-Development Week, a cycle of events and talks with executives and guests that, this year, focused on Digital Transformation

and personal development. In 2017, 84 actions were conducted in 12 cities, and 4,626 employees participated in person and 6,581 participated online.

We also launched the Digital Day, a day of talks and mini workshops on digital issues. In 2017, we held six versions of the event, with 1,395 employees participating in person and 3,274 employees participating online.

In order to strengthen and develop leaders, we rely on a series of initiatives, such as:

• **Corporate Mentoring Program:** launched in 2017, in order to accelerate the development of leaders and prepare them for current and future business challenges.

• **Leaders Academy:** promotes culture and the organizational strategy through a portfolio of courses on topics relevant to the business. Held in 10 locations throughout Brazil, the Academy had 2,867 participants from January to December 2017.

• **Telefónica University (Barcelona):** through international development programs, reinforces the connection with the global strategy of the Telefónica Group. In 2017, 184 leaders from Brazil attended in 6 different courses.

In 2017, we invested R$67.2 million in the qualification of our employees, with an average of 53.25 hours per employee.

Squad model_

In order to leverage teamwork and speed up decision-making and problem solving processes, we have adopted the squad model in some areas of our business. Developed in Silicon Valley, the model is ideal for the implementation of innovation and digital transformation projects, as it enables the selection of differentiated multidisciplinary teams for each project, based on the individual knowledge and talents of each employee.

The squad model was first implemented in the Company in 2016, initially focused on the digital area. But in 2017, it was extended to other areas, such as IT and Sustainability. In all, 200 employees already work within the model, which should expand in the coming years.
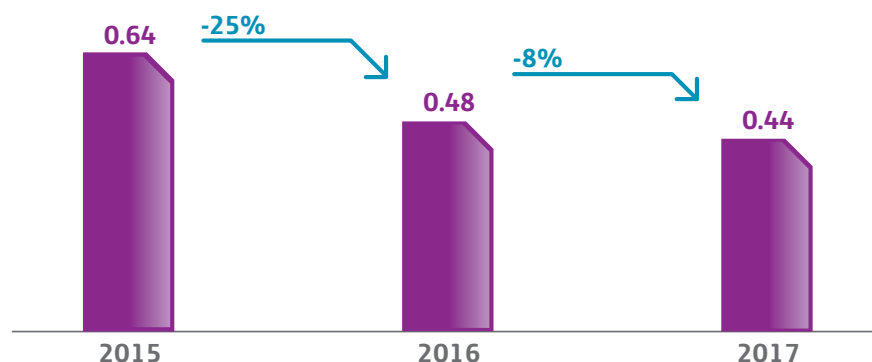
Occupational health and safety_

GRI 403-1 / 403-2

Our Occupational Health and Safety actions are coordinated to guarantee compliance with Brazilian labor laws as well as the promotion of employees' well-being and quality of life. We rely on teams working throughout the country, specialized in safety, accident prevention and dissemination of the strategic topics in the area.

Accident rate

0.64   -25%   0.48   -8%   0.44

2015   2016   2017

Occupational health and safety indicators			
	Men	Women	Overall
Accident frequency rate[1]	0.638	0.147	0.440
Lost days rate[2]	21.652	4.590	14.776
Absenteeism rate[3]	0.0228	0.0341	0.0275

[1] Number of Typical Work Accidents over total hours worked times 200,000. Total hours worked take into account the actual total working hours.
[2] The lost days rate calculation was changed from 2017. It takes into account total days lost due to accidents over total hours worked times 200,000.
[3] The absenteeism rate calculation was changed from 2017. It takes into account the number of days lost due to any illness or accident, excluding maternity leave.

In 2017, we did not register any fatality due to an accident in the workplace. According to the occupational medical analysis, all leave due to health problems were related to different causes, not to occupational disease.

Through our Ally Management, we also monitor compliance with the Health and Safety legal obligations of our service providers. Although we are not responsible for the quantitative and qualitative control of injuries and fatalities, we supervise our main suppliers in order to assess their performance and guide them in the adoption of best health and safety practices.

All our operational units with more than 50 employees have an Internal Commission for Accident Prevention, in accordance with industry regulations in Brazil. In 2017, 67 CIPA's were established, offering direct assistance to 79% of our employees.

In addition to the prevention actions developed by the OSH – Occupational Health and Safety team, we conducted the SIPAT (Internal Week for the Prevention of Work Accidents and Promotion of Occupational Safety), which had the participation of 100% of employees, with the theme "Protect yourself and enjoy your life".

In 2017, we continue to promote the Weekly Safety Dialogue (DSS), an informational material sent to employees working in the field. From this year, the material was also available through the Conectados app, exclusively for our employees.

Environment

11

Environmental management_

GRI 102-11/ 103-1/ 103-2 /103-3

Within our operation, we seek to generate value for society, our employees, shareholders and customers, causing the least possible environmental impact. To this end, we aim to reduce our energy consumption, CO_2 emissions and waste generation. We also look for ways to go beyond the boundaries of our activities, engaging our entire value chain, from suppliers to customers, in our sustainability vision.

But our goal is not only to reduce environmental impact. At Telefônica Brasil, we believe in the power of digital technology to create new opportunities for sustainable development, leading to greater energy efficiency and the best use of natural resources.

Through this initiative, we contribute to the following SDGs:

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

These guidelines are part of the Telefónica Group's Environmental Policy, which governs our EMS (Environmental Management System). This system is implemented in our operations, enabling better control of risks and compliance with environmental laws, with the aim of avoiding possible environmental liabilities, fines and damages to reputation.

Currently, the EMS covers the planning, implementation, maintenance, operation and deactivation processes of the mobile and fixed line networks in 51 municipalities in which we operate. These municipalities were chosen considering factors such as the strategic importance to the organization, the number of sites and population served.

In 2017, the EMS obtained the renewal of the ISO 14001 certification, in its new version NBR ISO 14001: 2015. We are the first country in the Telefónica Group to migrate to the new version, which establishes stricter control standards.

In 2017, our Environmental Management System obtained the renewal of the ISO 14001 certification, in its latest version.

Through the EMS, we conducted an Annual Audit Plan (PAA) in order to verify the effectiveness of operational controls, management of aspects and impacts of our operation and compliance with legal requirements. In 2017, the auditing cycle included all regions and 39% of the municipalities covered by the EMS. 14 internal audits were carried out, of which eight regarding the Environmental Management System and six related to Environmental Legal Compliance.

We also carried out external audits on suppliers (learn more on page 58), in order to assess those considered critical to the EMS.

Aimed at raising awareness of our Environmental Policy among our employees, during 2017 we held 1,300 hours of environmental training, addressing topics such as ISO 14001, chemical storage, solid waste management, black smoke monitoring, response to environmental emergency, among others.

Electromagnetic fields

Currently, an aspect widely studied by the telecom industry is the possible effect of the electromagnetic waves emitted by antennas on the health of the population. According to information published by the GSMA, an international association that represents telecommunications companies, several studies have been conducted on the subject and found no evidence that the electromagnetic waves emitted by the sector may pose risks to human health.

The Telefónica Group works together with institutions, researchers, companies and governments around the world to ensure maximum safety of its equipment. Every 5 years, we carry out measurements at our base stations and emission levels are always below those set out by standardization institutions such as the WHO (World Health Organization) and the ICNIRP (International Commission on Non-Ionizing Radiation Protection).

We also disseminate scientifically correct information to the population and, in 2017, we launched a training program for our employees explaining and demystifying the subject.

Mudanças climáticas_

GRI 305-1 / 305-2 /305-3

Climate change caused by greenhouse gas (GHG) emissions is one of the main risks to the sustainability of our business and of society as a whole. Therefore, we have a clear commitment to migrating to a low carbon economy.

In line with our strategic objectives of expanding the network and increasing the quality of products and services, our global commitment to reduce energy consumption and GHG emissions by 2020 is detailed below:

Through this initiative, we contribute to the following SDG:

Goals related to Energy and Climate Change of the Telefónica Group | 2015-2020

To reach 30% of the consumption of renewable energy in the Free Market

To reduce by 50% energy consumption from traffic by 2020

To reduce direct and indirect GHG emissions by 30%

In order to achieve these goals, we have established the Renewable Energy Plan and the Energy Efficiency Plan.

To make its commitment public, the Telefónica Group has joined the RE100 initiative, a global and collaborative effort involving large organizations committed to reaching 100% of renewable energy consumed in their operations (learn more on page 21). The use of renewable sources should help improve competitiveness, reduce operating costs and align growth with a sustainable strategy.

In Brazil, we are signatories of the Corporate Position on Carbon Pricing, aimed at the implementation of a carbon pricing mechanism in the country.

In order to assess and mitigate our impact, we monitor the emissions generated by our activities, according to the international guidelines of the GHG Protocol, and make this information available on the Brazilian Program platform. Since 2012, our inventory has qualified for the Gold Seal, the highest classification applicable on this platform.

In 2016, 78% of our GHG emissions came from the energy consumption in our network (Scope 2), used to power equipment and communication systems. This percentage dropped to 74% with the increased consumption of renewable energy with a zero emission factor (learn more on page 76). Therefore, we have developed a series of initiatives to improve the energy efficiency of our equipment, including the efficient use of generators.

GHG emissions inventory

Total[1]: 164,297 tCO_2

Scope 1
36,433

Scope 2[2]
121,985

Scope 3
5,879
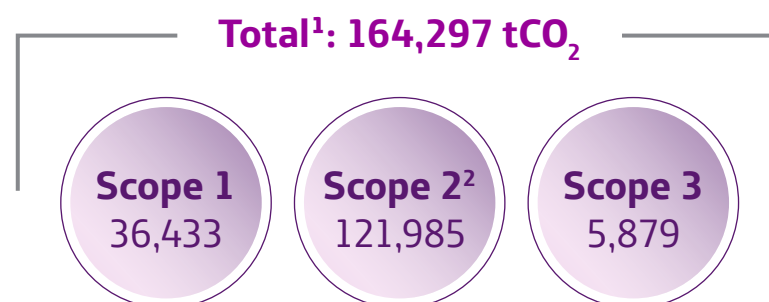
[1]The figures reported by Telefônica Brasil differ from the amounts reported at corporate level since the calculation factors used are different. In Brazil, we use the GHG Protocol calculation methodology (local emission factors) and the corporate data amounts are based on generic values for all the group's countries.
[2]Scope 2 emissions were calculated using the location method.

Emissions per data traffic (tCO_2e/Pb)

2015	2016	2017
38.96	16.62	13.40
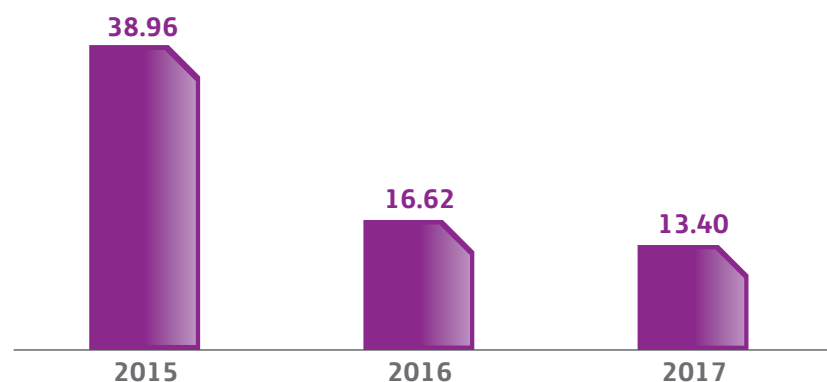
Climate change risk

In 2017, the Telefónica Group conducted a study on the vulnerability of its operations to the risks associated with climate change. The result showed that the greatest risks are concentrated in Latin America, particularly Brazil and Peru.

The most significant risks are related to extreme weather events and the increase in average temperature, which can affect the energy consumption in our infrastructure and rise the price of electric energy. The risk is higher in countries that have hydroelectric plants as their main source of electric power.

In addition, the study points out that the technology we offer must play an important role in helping to prevent the tragic consequences of natural disasters, as connectivity is indispensable for saving lives through timely alerts and emergency services.

Energy _

GRI 302-1

In order to achieve the goals related to the reduction of energy consumption, our management is focused on increasing energy efficiency and prioritizing renewable sources. We rely on an Energy Management team and a Global Energy Management Policy to guide our projects within this issue.

> Through this initiative, we contribute to the following SDG:

7 AFFORDABLE AND CLEAN ENERGY

In line with this Policy, we created the Sustainable Fleet project, which provides for the replacement of fuel used by our fleet in the state of São Paulo, with the use of ethanol instead of gasoline. The project, in addition to resulting in savings due to the lower price of ethanol, also generates carbon credits for the Company, as ethanol is not a fossil fuel. In 2017, we generated approximately 2,171 tons of CO_2 in carbon credits.

The Policy also guides Vivo Smart Energy, which is available to our corporate customers to manage their electricity consumption wisely (learn more on page 47).

In 2017, we had an increase in data traffic in our network, which also led to the 15% rise in the energy consumption of our operation compared to last year, totaling 6.4 million GJ of energy. Even with this increase, we are more efficient and consuming less and less energy per data traffic.

Energy Consumption per Data Traffic (MWh/Pb)

- 2015: 267.77
- 2016: 145.36
- 2017: 111.25
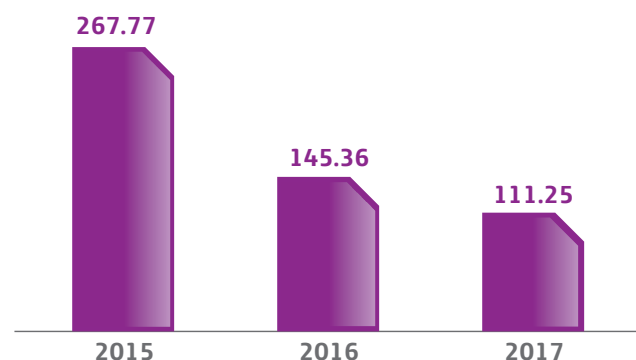
Energy Consumption (GJ)			
	2015	**2016**	**2017**
Energy generated by fuel combustion in operations/generators			
Diesel	64.5	56.8	62.2
Gasoline	0.0	7.0	6.7
Electricity purchased			
Total consumption of electricity	6,127,472	5,586,431	6,406,131
Free market (purchase of renewable energy)	1,330,495	1,398,399	1,670,546
Percentage of renewable energy	22%	25%	26%
Total	**6,127,537**	**5,586,495**	**6,406,200**

Renewable energy purchased on the free market (in thousands of GJ)

- 2015: 1,330
- 2016: 1,398 (+5%)
- 2017: 1,671 (+20%)
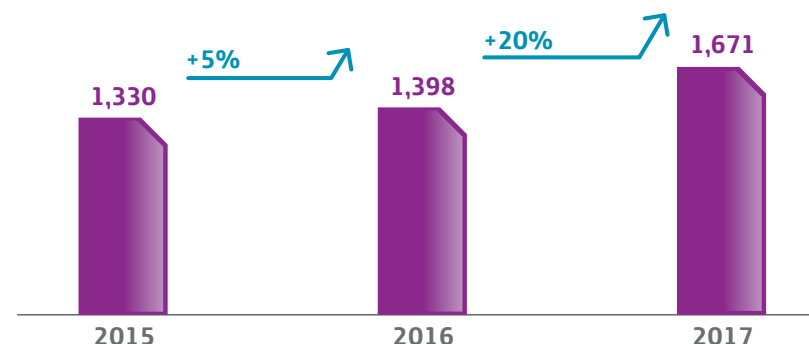
Our energy consumption data is audited by an independent firm (AENOR).

Global Workshop on Energy and Climate Change

The Global Workshop on Energy and Climate Change is annually held by the Telefónica Group to boost the Company's energy transformation. It brings together our main suppliers, employees and leaders with the aim of sharing Telefónica's energy efficiency strategy and assessing the achievement of targets for reducing energy consumption and GHG emissions. In addition, the meeting allows for evaluation and establishment of strategic actions for the future, as well as more information on the new market trends and technologies. In 2017, the meeting took place for the first time in Brazil, in Foz do Iguaçu.

Responsible consumption_

The Company is aware of its responsibility to reduce the environmental impact in its entire value chain, and have a series of initiatives aimed at enhancing the customer experience in all points of contact: in the purchase of products, in the provision of service and when their equipment's useful life comes to an end.

Through this initiative, we contribute to the following SDG:

Eco Rating

Mobile phones are the main products we sell directly to customers in our stores. For this reason, we launched the Eco Rating Seal, which classifies the environmental impact of mobile phones sold. The assessment methodology was developed in conjunction with the NGO Forum for the Future in the United Kingdom, classifying devices on a scale of 0 to 5.

The methodology assesses more than 100 criteria including the materials used, battery consumption and the supply chain, among others. Our aim is to give our customers more access to information that allows them to make more responsible purchasing decisions.

In 2017, we increased the number of mobile phones assessed, reaching 89% of new products with the seal in our stores. In addition, 56% of the revenues from the sale of mobile phones are composed of devices that have the program's seal. The topic was also included in the Excellence Program of stores and resellers. With these initiatives, in addition to supporting the customer decision, we also aim at encouraging suppliers to increasingly adopt responsible production practices.

Vivo renova

The Vivo Renova program encourages our customers to trade in their smartphones and tablets for newer models, offering discounts when they turn in their used devices. We therefore guarantee reverse logistics (learn more on page 78) and proper disposal of used products.

The program is available in more than 900 stores throughout the country. In 2017, 86,000 devices were collected, which is equivalent to 12 tons of equipment, totaling 250,000 devices since the beginning of the program.

Digital Account

Our customers can access their accounts everywhere and at all times with the Meu Vivo app (learn more on page 36) and can receive their bills by email. Through this initiative, we contribute to the environment by reducing the consumption of natural resources used in printing, delivering and disposing of paper bills. We encourage our customers to choose the Digital Account by offering 500MB of internet every month. As a result, in 2017, the number of mobile customers who used the account increased by 83% and by 140% of fixed line customers. In all, 131 million bills were sent in digital format, which generated savings of 168 million sheets of paper.

Reverse Logistics_

GRI 301-3

The generation of electronic waste is one of the main environmental challenges faced by technology companies. Reverse Logistics proposes to reduce this impact by analyzing and dismantling this waste, separating its several components and ensuring the proper disposal of each one of them, either by recycling, using them in new products or by sending them to special landfills.

At Telefônica Brasil, we have implemented projects to guarantee the recovery and Reverse Logistics of the several pieces of equipment our customers use. In the mobile telecom business, we have implemented, since 2006, the Recicle com a Vivo program (Recycle with Vivo), helping our customers to deposit used mobile phones, batteries and accessories at urns in our stores and resellers, which are then collected and environmentally adequately disposed of.

Since its implementation, the project has already collected 4.8 million items, guaranteeing the destination of 100 tons of waste. In 2017, we collected 122,000 units, equivalent to 8.1 tons, and we also renew 100% of the urns in our stores and resellers, replacing them by new, more resistant and safe models.

In the fixed line telecom business, we directly pick up equipment that is defective from customers or once the contract ends. In 2017, we collected 450 tons of equipment. These materials go through a triage and are recovered to return to operations with full technical capability or dismantled and properly disposed. In December 2016, we launched the www.vivo.com.br/devolverequipamento page in Vivo's website, in which customers can schedule the collection of equipment that is no longer used.

In 2017, we worked in partnership with Abinee (Brazilian Electrical and Electronics Industry Association) to develop a national Reverse Logistics system which covers the entire sector and ensures the adequate disposal of electronic waste in the country.

Waste_

GRI 306-2

Waste generation is among our main environmental impacts, particularly due to the size of our operations. We seek to extend the life cycle of the materials we use, prioritizing their recovery and reuse. When this is not possible, we send the greatest volume possible for recycling, with initiatives such as selling scrap. We sell this material to approved suppliers, who guarantee proper recycling and have an Environmental Management System certified with ISO 14001, ensuring the traceability of this waste.

Waste disposal by type and method (tons)			
	Type	2016	2017
Recycling			
Paper and cardboard	Not hazardous	48.7	15.3[1]
Cables and metals	Not hazardous	6,366.6	6,339.0
Batteries	Hazardous	1,312.2	1,590.0
Fluorescent lamps	Hazardous	11.3	3.7
WEEE (Waste of Electrical and Electronic Equipment) – operational	Not hazardous	812.7	757.0[2]
WEEE – administrative	Not hazardous	294.2	
WEEE – customers	Not hazardous	345.5	528.4
Customers' mobile telephones	Not hazardous	7.7	8.1
Total	-	9,198.9	9,241.5
Landfill			
Cables and metals	Not hazardous	143.0	352.0

[1] The calculation for 2017 only includes the Ecoberrini building.
[2] In 2017, we calculated operational and administrative WEEE together. The volume showed a decrease compared to the previous year because several sites were demobilized in 2016.

Responsible network _

The greatest environmental impact of our operation is related to our network infrastructure, used to ensure connection with our customers, mainly because of electricity consumption, visual impact and waste generated by the plant's maintenance processes.

Therefore, we rely on structured operational controls to manage all aspects and environmental impacts. With the project for the expansion of our network, for example, the main criterion was to evaluate the possibility of sharing existing infrastructure, reducing visual impact, energy consumption, impact on biodiversity and operating costs. We ended 2017 with 21,249 sites shared with other operators and tower companies.

Responsible management of network infrastructure

Planning and construction

2,498
environmental licenses and permits

R$ 1,870,142
invested in environmental licenses and permits

172
visual impact measures

R$ 3,380,273
invested in reducing visual impact

R$ 1,166,272
invested in environmental impact studies

6
remote bases with use of renewable energy

Operation and maintenance

4,543
electromagnetic field measurements

R$ 795,145
spent on electromagnetic field measurements

21,249
shared structures

R$ 2,173
invested in reducing acoustic impact

R$ 44,323
invested in environmental compliance

1,594
tons of hazardous waste properly disposed

Dismantling

757
tons of electronic waste recycled in the operation

20
tons of mobile phone waste

R$ 64,484,917
in profits from the sale of scrap

Circular Economy_

Our environmental management is integrated, developing actions aimed at reducing the impacts of the entire value chain.

Reverse Engineering

Raw material

Products

Inputs

Customers

- Sustainable Sales
- Eco Rating
- Recicle com a Vivo
- Digital Account
- IoT (Energy Efficiency)
- Vivo Renova

Environment

- Commitments: SDGs, Global Compact, GHG, RE100

Suppliers

- Sustainability Audits
- Sustainability Policy for the Supply Chain
- Global Workshop on Energy and Climate Change
- Eco Rating

Telefônica

- Environmental Management System
- Energy Efficiency
- Renewable Energy
- Sustainable Sites
- Emission Reduction
- Waste Management
- Sustainable Innovation
- Meu Vivo

Financial Results

12

Our Business Model is based on the Company's ability to generate financial results, in order to guarantee investments and to generate return to shareholders. In 2017, we ended the year presenting a strong growth, mainly due to increased data revenues and the efficient allocation of resources.

Mobile Business_

We recorded 74.9 million mobile business accesses, 1.6% higher than in 2016. Of this amount, 49.1% were post-paid, reflecting our focus on customers who generate greater value and contribute to the increase in business profitability. The ARPU (average revenue per user) grew 3% year-over-year, boosted by higher data consumption, which had an increase of 28.6% in its ARPU. Voice ARPU decreased by 32%. We remained the leader in the post-paid segment, with market share of 41.8%, and in terminals with 4G technology, with a 33.6% rate.

Mobile network accesses (in millions)

	2015	2016	2017
Total pre-paid accesses	42.2	40.4	38.2
Total post-paid accesses	31.1	33.4	36.8

Mobile network ARPU (R$/month)

	2015	2016	2017
Voice ARPU	12.7	11.7	7.9
Data ARPU	11.8	16.0	20.5
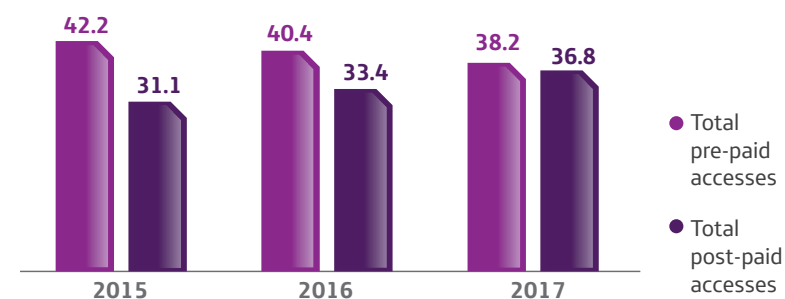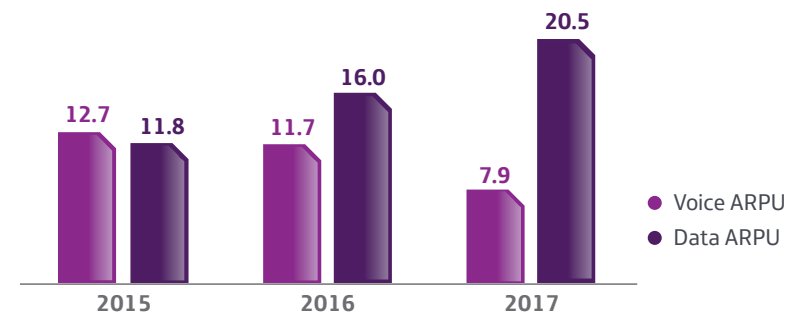
Fixed Line Business_

In the fixed line segment, the migration from voice to data services is still strong. While voice and pay-TV accesses fell by 3.5% and 7.3%, respectively, fixed line broadband increased by 1.9%. In total, we registered 22,857 fixed line business accesses, representing a 2.1% decrease compared to the previous year. In relation to the ARPU, voice services continued their downward trend, down 5.3%, while Pay-TV and Broadband grew 6.1% and 14.4%, respectively.

Fixed line network access (in millions)

2015	2016	2017	
23.9	23.3	22.9	● Total accesses
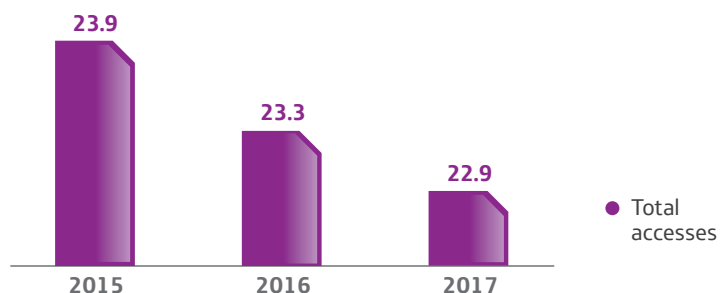
Fixed line network ARPU (R$/month)

	2015	2016	2017
Broadband ARPU	41.9	45.1	51.6
Voice ARPU	43.8	43.0	40.8
Pay-TV ARPU	81.8	91.2	96.8

● Broadband ARPU ● Voice ARPU ● Pay-TV ARPU
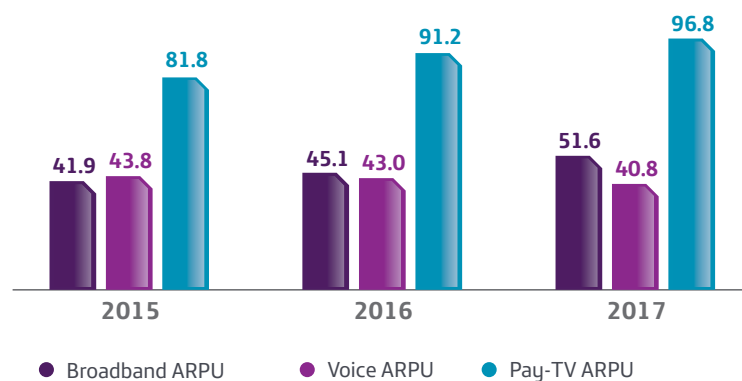
Revenue_

Net Operating Revenue reached 43.2 billion in 2017, 1.6% higher than in the previous year. This positive variation was mainly due to data revenues, from mobile and fixed lines, but partially offset by the decline in voice revenues and a reduction in interconnection fees for fixed and mobile lines.

Net revenue (R$ million)

	2015	2016	2017
Total	42,134	42,508	43,207
Fixed line	16,998	16,970	16,749
Mobile	25,136	25,538	25,388

● Fixed line ● Mobile
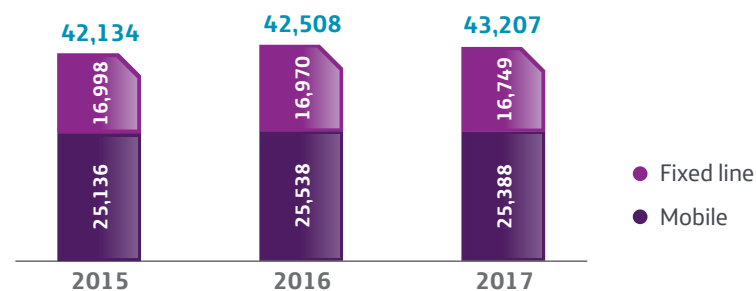
Ebitda and Net Income_

Revenue expansion and cost-efficiency measures adopted by the Company resulted in an increase of 3.3% in Ebitda, totaling R$14.5 billion. The result positively impacted our Net Income, which reached R$4.6 billion, 12.8% higher than in the previous year.

Ebitda and Net Income (R$ million)

33.00%

33.50%

30.20%

12,714

14,022

14,486

3,331

4,082

4,609

2015

2016

2017

— Ebitida margin

● Ebitida

● Net income

Shareholder value added (SVA)_

GRI 201-1

Telefônica's added value totaled R$32.9 billion in 2017, an increase of 1.4% compared to the previous year. Of this total, 57% was allocated to the payment of taxes, fees and contributions.

SVA (R$ million)

R$4,608.80
14%

R$4,107.20
12%

R$5,480
17%

Total:
R$ 32.899,3

57%
R$18,702.50

● Personnel

● Taxes, fees and contributions

● Return on third-party capital

● Return on own capital

Debt_

At the end of 2017, our net debt was R$3,809.9 million, or 5.5% of net equity. Of the total funding raised, 2.7% is denominated in foreign currency and it is 100% covered by hedging operations.

Debt (R$ million)

0.36   0.29   0.26

4,581   4,080   3,810

2015   2016   2017

— Net debt/ Ebitida (times)

● Debt

Capital market_

Telefônica Brasil's Ownership Structure		
Shareholder	Common shares	Preferred shares
Controlling group	540,033,264 (94.47%)	704,207,855 (62.91%)
Minority	29,320,789 (5.13%)	415,131,868 (37.09%)
Treasury	2,290,164 (0.40%)	983 (0.00%)

In 2017, the value of our common and preferred shares traded on B3 increased by 13.2% and 10.3%, respectively. Our ADRs on the New York Stock Exchange (NYSE) appreciated 10.8% in the year. Dividends and interest on equity to be paid to our shareholders in 2018, referring to the 2017 fiscal year, totaled R$2.4 billion.

Shares Performance - Telefônica Brasil
(Base 100 in 12/31/2016)

—— VIVT3   —— VIVT4   —— IBOV   ------ VIV   —— Dow Jones

GRI Index

13

GRI Content Index_

GRI 102-55

Contents		Reference (page) / Direct Response	Relation to the Global Compact principles
General Standard Disclosures			
Organizational Profile			
102-1	Name of the organization	Page 11	
102-2	Primary brands, products, and services	Page 11	
102-3	Location of the organization's headquarters	Page 11	
102-4	Number of countries where the organization operates	Page 11	
102-5	Nature of ownership and legal form	Telefônica Brasil S.A. is a publicly-held corporation with shares listed on the B3 and the NYSE.	
102-6	Markets served	Page 11	
102-7	Scale of the organization	Page 11	
102-8	Profile of employees and other workers	In addition to the information on pages 63 to 65, we divide our employees in the following categories:	

Employees by gender and functional category		
Functional category	Men	Women
Effective	19,660	13,962
Interns	20	19
Apprentices	251	200

Employees by gender and type of employment		
Type of employment	Men	Women
Full time	16,977	9,080
Part time	2,683	4,882

Data for control and closing of the monthly headcount is taken from the SAP ERP of the HCM (Human Capital Management) module.

Contents		Reference (page) / Direct Response	
102-9	Organization's supply chain	Pages 57 and 61	
102-10	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	In July 2017, the wholly-owned subsidiary Telefônica Data S.A. acquired all the shares representing the capital stock of Terra Networks. Therefore, Terra Networks became part of Telefônica Brasil's corporate structure.	

Contents		Reference (page) / Direct Response	Relation to the Global Compact principles
102-11	Precautionary approach or principle addressed by the organization	Page 71	
102-12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	Page 20	
102-13	Memberships of associations and national or international advocacy organizations	Page 20	
Strategy			
102-14	Statement from the most senior decision-maker of the organization	Page 03	
Ethics and Integrity			
102-16	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	Pages 11 and 18	
102-17	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines	The Company has different internal mechanisms for guidance and clarification regarding ethical and lawful behavior, and if employees suspect and/or understand that there has been a breach, it also has an official channel, managed by the Inspection Team, which in 2017 received 644 complaints.	10
Governance			
102-18	Governance structure of the organization, including committees	Page 17	
Stakeholder Engagement			
102-40	List of stakeholder groups engaged by the organization	Page 8	
102-41	Percentage of total employees covered by collective bargaining agreements	94.9% (31,922) of our employees are covered by collective bargaining agreements. Employees holding executive positions do not fit into this type of agreement.	3
102-42	Basis for identification and selection of stakeholders with whom to engage	Page 8	
102-43	Organization's approach to stakeholder engagement, including frequency of engagement	Pages 8 and 35	
102-44	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns	Pages 8 and 35	

Contents		Reference (page) / Direct Response	Relation to the Global Compact principles
Report Profile			
102-45	List all entities included in the organization's consolidated financial statements	Telefônica Brasil, TData, POP, Innoweb, Terra Networks Brasil and TGLog	
102-46	Process for defining the report content and the Aspect Boundaries	Page 8	
102-47	List all the material Aspects identified in the process for defining report content	Page 8	
102-48	Effects of any restatements of information provided in previous reports	There was no restatement of information provided in previous reports.	
102-49	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	There was no significant changes in scope and aspect boundaries.	
102-50	Reporting period	Page 7	
102-51	Date of most recent previous report	From January 1, 2016 to December 31, 2016	
102-52	Reporting cycle	Annual	
102-53	Contact point for questions regarding the report or its contents	Page 8	
102-54	Reporting assumptions according to the GRI Standards	Page 8	
102-55	GRI Content Index	Page 88	
102-56	External Assurance	Page 7	

Contents		Reference (page) / Direct Response	Relation to the Global Compact principles
Management Approach			
103-1	Identified material aspects and boundaries	Explanations on material aspects can be found on pages 18, 35, 37, 42, 53, 57, 61, 63, 66 and 71. The table below presents their boundaries.	

Material aspect	Internal boundaries	External boundaries
Promise to the Customer and Digital Trust	Employees Executives	Customers Regulatory body Business partners and suppliers Service providers
Contribution to Progress	Employees Executives	Regulatory body Government Customers Civil societ
Diversity and Talent Management	Employees Executives	-
Environment	Employees Executives	Customers Regulatory body Business partners and suppliers Service providers Civil society
Sustainable Innovation	-	Customers Regulatory body Business partners and suppliers Service providers Civil society
Ethics	Employees Executives	Customers Regulatory body Business partners and suppliers Service providers Civil society
Sustainability Management in the Value Chain	Employees Executives	Customers Regulatory body Business partners and suppliers Civil society

103-2	Management on the material aspects	Pages 18, 35, 37, 42, 53, 57, 61, 63, 66 and 71	
103-3	Evolution of management	Pages 18, 35, 37, 42, 53, 57, 61, 63, 66 and 71	

Contents		Reference (page) / Direct Response	Relation to the Global Compact principles
Economic Disclosures			
Economic Performance			
201-1	Direct economic value generated and distributed	Page 85	
Indirect Economic Impacts			
203-1	Development of significant infrastructure investments and services supported	Page 30	
203-2	Significant indirect economic impacts, including the extent of impacts	Page 53	
Procurement Practices			
204-1	Proportion of spending on local suppliers at significant locations of operation	Proportion of spending on local suppliers can be found on page 57. We consider local suppliers all those who are enrolled under a Brazilian corporate taxpayer ID (CNPJ).	10
Anti-corruption			
205-3	Confirmed incidents of corruption and actions taken	There were no incidents of corruption involving public agencies and employees.	
Environment Disclosures			
Energy			
302-1	Energy consumption within the organization	Page 75	7 e 8
Emissions			
305-1	Direct greenhouse gas (GHG) emissions (Scope 1)	Page 73	7 e 8
305-2	Indirect greenhouse gas (GHG) emissions (Scope 2)	Page 73	7 e 8
305-3	Indirect greenhouse gas (GHG) emissions (Scope 3)	Page 73	7 e 8
Effluents and Waste			
306-2	Total weight of waste by type and disposal method	Page 79	8
Supplier Environmental Assessment			
308-2	Significant actual and potential negative environmental impacts in the supply chain and actions taken	Pages 57 and 61	8

Contents	Reference (page) / Direct Response	Relation to the Global Compact principles
Social Disclosures		
Employment		
401-1 Total number and rates of new employee hires and employee turnover by age group, gender and region	In addition to the numbers on page 65, we also divide the information by state:	6

State	Total hires	Hiring rate	Total dismissals	Turnover rate
AC	33	66%	22	44%
AL	14	23%	16	26%
AM	43	33%	45	34%
AP	13	54%	13	54%
BA	134	21%	128	20%
CE	748	39%	765	40%
DF	204	18%	216	19%
ES	59	14%	97	23%
GO	128	20%	105	16%
MA	38	33%	39	34%
MG	264	20%	310	24%
MS	58	18%	62	19%
MT	114	38%	126	42%
PA	64	24%	96	36%
PB	22	11%	28	14%
PE	99	17%	86	15%
PI	29	55%	17	32%
PR	2,143	26%	2,357	28%
RJ	483	24%	452	23%
RN	29	38%	13	17%
RO	13	23%	19	34%
RR	15	58%	17	65%
RS	230	20%	330	29%
SC	237	31%	228	30%
SE	38	34%	19	17%
SP	2,375	18%	1,731	13%
TO	25	41%	24	40%

Contents		Reference (page) / Direct Response	Relation to the Global Compact principles
Occupational Health and Safety			
403-1	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs	Page 69	
403-2	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism and total number of work-related fatalities, by region and by gender	In addition to the indicators reported on page 69, we also discriminate OSH data by region:	

2017 Region	Accident Rate	Lost Days Rate	Absenteeism Rate
Northeast	0.6011	12.1376	0.0374
North Midwest	0.6577	23.6054	0.0279
São Paulo	0.3240	14.5613	0.0197
Southeast	0.2845	12.4353	0.0296
South	0.5195	14.0112	0.0324
Total	0.4397	14.7761	0.0275

The OHS area monitors employees' region differently than the rest of the HR department.

Contents		Reference (page) / Direct Response	Relation to the Global Compact principles
Training and Education			
404-1	MAverage hours of training per year per employee by gender, and by employee category	Page 68	6
Diversity and Equal Opportunity			
405-1	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	Page 66	6
405-2	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Page 66	6

Contents		Reference (page) / Direct Response	Relation to the Global Compact principles
Forced or Compulsory Labor			
409-1	Operations and supplier identified as having significant risk for incidents of forced or compulsory labor and measures to contribute to the elimination of all forms of forced or compulsory labor	Our audits did not identify any operation or supplier as having significant risk for incidents of forced labor. Among the measures taken to contribute to the elimination of compulsory labor are the dissemination of the Responsible Business Principles in the supply chain, contract clauses and the Sustainability Policy for the Supply Chain (learn more on pages 57 and 61).	4
Supplier Human Rights Assessment			
414-2	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	Page 57	1 e 2
Public Policy			
415-1	Total value of political contributions by country and recipient/beneficiary	Telefônica Brasil does not make contributions to political parties, as established in our Responsible Business Principles.	10
Customer Health and Safety			
416-2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcome	There are no records of incidents of non-compliance in the period related to health and safety impacts of products and services on customers.	
Marketing and Product and Service Labeling			
417-2	Total number of incidents of non-compliance with regulations and voluntary codes concerning products and service information and labeling, by type of outcomes	In 2017, we registered three incidents of non-compliance with regulations related to the labeling of bills. No fines have yet been imposed in relation to the three incidents, as the lawsuits are part of a Conduct Adjustment Agreement under negotiation with Anatel.	
417-3	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcomes	We did not register any incident of non-compliance that resulted in a fine, penalty or warning. We have a total of eight cases that were analyzed by Conar in 2017. One of them began in 2016, but has been halted to await the decision of a lawsuit pending in civil courts. Seven cases were filed against Vivo during the year. We reached an agreement in three of them; in two cases, the rapporteur determined that Vivo would change the campaign; in one, the rapporteur determined that the Company would remove a sentence in the campaign; and the last one was filed.	
Customer Privacy			
418-1	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Page 39	

Assurance report _

Relatório de asseguração limitada dos auditores independentes sobre as informações de sustentabilidade contidas no Relatório de Sustentabilidade 2017

Aos Administradores e Acionistas
Telefônica Brasil S.A

São Paulo - SP

Introdução

Fomos contratados pela Telefônica Brasil S.A
apresentar nosso relatório de asseguração li
das informações de sustentabilidade contida
Sustentabilidade do exercício findo em 31 de
de Sustentabilidade 2017").

Responsabilidades da administ

A administração da Companhia é responsáv
apresentação das informações de sustentab
de Sustentabilidade 2017, de acordo com os
Initiative (GRI-Standards) e pelos controles i
como necessários para permitir a elaboração
distorção relevante, independentemente se

Responsabilidade dos auditores independentes

Nossa responsabilidade é expressar conclusão sobre as informações de sustentabilidade contidas no Relatório de Sustentabilidade 2017, com base no trabalho de asseguração limitada conduzido de acordo com o Comunicado Técnico CTO 01 – "Emissão de Relatório de Asseguração Relacionado com Sustentabilidade e Responsabilidade Social", emitido pelo Conselho Federal de Contabilidade – CFC, com base na NBC TO 3000

– Trabalhos de Asseguração Diferente de Auditoria e Revisão, também emitida pelo CFC, que é equivalente à norma internacional *ISAE 3000 - Assurance engagements other than audits or reviews of historical financial information*, emitida pelo *IAASB - International Auditing and Assurance Standards Board*. Essas normas requerem o cumprimento de exigências éticas, incluindo requisitos de independência, e que o trabalho seja executado com o objetivo de obter segurança limitada de que as informações de sustentabilidade contidas no Relatório de Sustentabilidade 2017, tomadas em conjunto, estão livres de distorções relevantes.

seguração limitada conduzido de acordo com a
AE 3000 consiste, principalmente, em indagações
outros profissionais da Companhia que estão
oração das informações, assim como na aplicação
analíticos para obter evidência que possibilite
e asseguração limitada sobre as informações
nto. Um trabalho de asseguração limitada requer,
o de procedimentos adicionais, quando o auditor
a conhecimento de assuntos que o leve a acreditar
, tomadas em conjunto, podem apresentar distorções

selecionados basearam-se na nossa compreensão
vos à compilação e apresentação das informações
e contidas no Relatório de Sustentabilidade 2017,
ncias do trabalho e da nossa consideração sobre
orções relevantes poderiam existir. Os procedimentos

a. O planejamento dos trabalhos, considerando a relevância, o volume de informações quantitativas e qualitativas e os sistemas operacionais e de controles internos que serviram de base para a elaboração das informações de sustentabilidade contidas no Relatório de Sustentabilidade 2017 da Companhia;

b. O entendimento da metodologia de cálculos e dos procedimentos para a compilação dos indicadores mediante entrevistas com os gestores responsáveis pela elaboração das informações;

c. A aplicação de procedimentos analíticos sobre as informações quantitativas e indagações sobre as informações qualitativas e sua correlação com os indicadores divulgados nas informações de sustentabilidade contidas no Relatório de Sustentabilidade 2017;

d. O confronto dos indicadores de natureza financeira com as demonstrações financeiras e/ou os registros contábeis.

Os trabalhos de asseguração limitada compreenderam, também, testes para observar a aderência às diretrizes e ao ~~Initiative~~ (GRI-Standards), aplicáveis na elab~~ sustentabilidade contidas no Relatório de S~~

Acreditamos que a evidência obtida em nos apropriada para fundamentar nossa conclu

Alcance e limitações

Os procedimentos aplicados em um trabalh são substancialmente menos extensos do um trabalho de asseguração razoável, que t opinião sobre as informações de sustentab de Sustentabilidade 2017. Consequenteme segurança razoável de que tomamos conhe que seriam identificados em um trabalho d objetivo emitir uma opinião. Caso tivéssem com o objetivo de emitir uma opinião, pode assuntos e eventuais distorções que podem existir nas informações de sustentabilidade contidas no Relatório de Sustentabilidade 2017. Dessa forma, não expressamos uma opinião sobre essas informações.

Os dados não financeiros estão sujeitos a mais limitações inerentes do que os dados financeiros, dada a natureza e a diversidade dos métodos utilizados para determinar, calcular ou estimar esses dados. Interpretações qualitativas de materialidade, relevância e precisão dos dados estão sujeitos a pressupostos individuais e a julgamentos. Além disso, não realizamos nenhum trabalho em relação a projeções futuras e metas.

Conclusão

Com base nos procedimentos realizados, descritos neste relatório, nada chegou ao nosso conhecimento que nos leve a acreditar que as informações de sustentabilidade contidas no Relatório de Sustentabilidade 2017 da Telefônica Brasil S.A. não foram compiladas, em todos os aspectos relevantes, de acordo com as diretrizes do *Global Reporting Initiative* (GRI-Standards).

~~aio de 2018~~

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Acknowledgements_

General Coordination of the Report
Telefônica Sustainability Area

**GRI Consulting, editorial coordination, content
writing and design**
RICCA Sustentabilidade

Photos
Telefônica Image Bank