

BLACKROCK CALIFORNIA MUNICIPAL INCOME TRUST
Form 8-A12B
July 13, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-A

FOR REGISTRATION OF CERTAIN CLASSES OF SECURITIES
PURSUANT TO SECTION 12(b) OR 12(g) OF THE
SECURITIES EXCHANGE ACT OF 1934

BLACKROCK CALIFORNIA MUNICIPAL INCOME TRUST
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State of Incorporation
or Organization)

51-0409109
(I.R.S. Employer
Identification no.)

100 Bellevue Parkway,
Wilmington, Delaware
(Address of Principal
Executive Offices)

19809
(Zip Code)

If this form relates to the registration of a
of a class of securities pursuant to Section 12(b)
of the Exchange Act and is effective pursu-
ant to General Instruction A.(c), please
check the following box. |X|

If this form relates to the registration
class of securities pursuant to Section 1
of the Exchange Act and is effective purs
to General Instruction A.(d), please
check the following box. |_|

Securities Act registration statement file number to which this form
relates: 333-58228

Securities to be registered pursuant to Section 12(b) of the Act:

Title of Each Class
to be so Registered

Common Stock

Name of Each Exchange on Which
Each Class is to be Registered

New York Stock Exchange

Securities to be registered pursuant to Section 12(g) of the Act:

None

INFORMATION REQUIRED IN REGISTRATION STATEMENT

Item 1. Description of Registrant's Securities to be Registered.

The description of the Registrant's securities to be registered is
incorporated by reference to the description contained under the caption
"Description of Shares" in the Registrant's Registration Statement on Form

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N-2 (Nos. 333-58228 and 811-10331) as filed electronically with the Securities and Exchange Commission (the "Commission") on April 3, 2001 (Accession No. 0000950172-01-000427) ("Registration Statement on Form N-2"), as amended by Pre-Effective Amendment No.1 to the Registration Statement on Form N-2, as filed with the Commission on June 4, 2001 (Accession No. 0000950172-01-500296), and by Pre-Effective Amendment No.2 to the Registration Statement on Form N-2, as filed with the Commission on June 19, 2001 (Accession No. 0000950172-01-502510) which are incorporated by reference.

Item 2. Exhibits.

Pursuant to the Instructions as to Exhibits, no exhibits are filed herewith or incorporated by reference.

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereto duly authorized.

BLACKROCK CALIFORNIA
MUNICIPAL INCOME TRUST

By: /s/ Ralph L. Schlosstein

Name: Ralph L. Schlosstein
Title: Trustee and President
(Principal Executive Officer)

Date: July 12, 2001

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(532,523)

(190,160)

(1,156,410)

(650,654)

Net gain (loss) on asset disposal/loss

40,652

	(3,331)
	32,100
	(22,921)
Other operating income (expenses)	(150,720)
	(19,705)
	(292,021)
	(93,975)
Total	870,912
	(124,746)
	2,331,952
	(496,978)

Other operating income

1,554,155

88,450

3,780,383

270,572

Other operating expenses

(683,243)

(213,196)

(1,448,431)

(767,550)

Total

870,912

(124,746)

2,331,952

(496,978)

(1) For the nine-month period ended September 30, 2018, includes tax credits amount to R\$3,356,687 (Company) and R\$3,386,433 (Consolidated), arising from the final court proceeding in favor of the Company and its subsidiary TData, which recognized the right to exclude ICMS (VAT) from the basis of calculation of PIS and COFINS contributions for the periods from September 2003 to June 2017 and July 2004 to June 2013 (notes 7 and 26).

(2) The amounts of provisions for labor, tax, civil, regulatory and contingent liabilities, for the nine-month period ended September 30, 2018, include write-offs of judicial deposits in the amount of R\$160,715.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)****26) FINANCIAL INCOME (EXPENSES)**

	Company			
	Three-month periods ended		Nine-month periods ended	
	09.30.18	09.30.17	09.30.18	09.30.17
Financial Income				
Interest income	52,154	160,306	161,154	491,371
Interest receivable (customers, taxes and other)	22,615	30,865	85,646	102,226
Gain on derivative transactions (Note 30)	88,676	85,437	212,435	294,446
Foreign exchange variations on loans and financing (Note 20)	12,294	46,026	21,753	108,950
Other revenues from foreign exchange and monetary variation (1)	1,167,816	96,958	3,111,753	323,932
Other financial income	59	32,215	(1,656)	107,949
Total	1,343,614	451,807	3,591,085	1,428,874
Financial Expenses				
Loan, financing, debenture, finance lease charges and contingent consideration (Note 20)	(115,268)	(240,733)	(380,371)	(775,434)
Foreign exchange variation on loans and financing (Note 20)	(18,867)	(8,839)	(55,815)	(88,817)
Loss on derivative transactions (Note 30)	(88,197)	(115,008)	(215,953)	(361,249)

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Interest payable (financial institutions, provisions, trade accounts payable, taxes and other)	(47,586)	(34,684)	(109,775)	(110,720)
Other expenses with foreign exchange and monetary variation	(354,885)	(210,365)	(731,536)	(747,096)
IOF, Pis, Cofins and other financial expenses (2)	(84,413)	(41,984)	(229,611)	(139,717)
Total	(709,216)	(651,613)	(1,723,061)	(2,223,033)

	Consolidated			
	Three-month periods ended		Nine-month periods ended	
	09.30.18	09.30.17	09.30.18	09.30.17
Financial Income				
Interest income	59,225	173,724	189,024	543,878
Interest receivable (customers, taxes and other)	25,480	32,356	96,998	104,396
Gain on derivative transactions (Note 30)	90,240	88,789	215,128	297,798
Foreign exchange variations on loans and financing (Note 20)	12,294	46,026	21,753	108,950
Other revenues from foreign exchange and monetary variation (1)	1,177,052	98,243	3,155,692	329,579
Other financial income	7,673	39,303	20,916	128,752
Total	1,371,964	478,441	3,699,511	1,513,353

Financial Expenses				
Loan, financing, debenture, finance lease charges and indemnification liability (Note 20)	(115,268)	(240,733)	(380,371)	(775,434)
Foreign exchange variation on loans and financing (Note 20)	(18,867)	(8,839)	(55,815)	(88,817)
Loss on derivative transactions (Note 30)	(89,920)	(115,409)	(220,241)	(361,650)
Interest payable (financial institutions, provisions, trade accounts payable, taxes and other)	(48,147)	(35,382)	(111,986)	(112,799)
Other expenses with foreign exchange and monetary	(360,705)	(205,363)	(744,019)	(756,626)

variation

IOF, Pis, Cofins and other

financial expenses (2)	(85,350)	(43,227)	(234,988)	(143,197)
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Total	(718,257)	(648,953)	(1,747,420)	(2,238,523)
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(1) For the nine-month period ended September 30, 2018, includes monetary restatements, in the amount of R\$2,856,198 (Company) and R\$2,885,432 (Consolidated), on the tax credits arising from the final court proceeding in favor of the Company and its subsidiary TData, which recognized the right to exclude ICMS (VAT) from the basis of calculation of PIS and COFINS contributions for the periods from September 2003 to June 2017 and July 2004 to June 2013 (notes 7 and 25).

(2) For the ine-month period ended September 30, 2018, includes the amount of R\$134,173 of PIS and COFINS on the monetary restatement credits described in item (1) above.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

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

27) BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a) Balances and transactions with related parties

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

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

- f) International transmission infrastructure for several data circuits and roaming services provided by Telxius Cable Brasil, Telefónica International Wholesale Services Espanha, Telefónica USA; and Media Net Br;

- g) Operations relating to the purchase of internet content, advertising and auditing services by Telefónica Group companies;

- h) Marketing services provided by Group companies;

- i) Information access services through the electronic communications network, provided by Telefonica de Espanha;

- j) Data communication services and integrated solutions provided by Telefónica International Wholesale Services Espanha and Telefónica USA;

- k) Long distance call and international roaming services provided by companies of Telefónica Group;

- l) Sundry expenses and costs to be reimbursed by companies of Telefónica Group;**

- m) Brand Fee for assignment of rights to use the brand paid to Telefónica;**

- n) Stock option plan for employees of the Company and its subsidiaries related to acquisition of Telefónica shares;**

- o) Cost Sharing Agreement (CSA) for digital-business related expenses reimbursed to Telefónica Digital;**

- p) Rentals of Telefónica Group companies' buildings;

q) Financial Clearing House roaming, inflows of funds for payments and receipts arising from roaming operation between group companies operated by Telfisa;

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Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

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

r) Integrated e-learning, online education and training solutions provided by Telefônica Serviços de Ensino (former Telefônica Learning Services Brasil);

s) Factoring transactions, credit facilities for services provided by the Group's suppliers;

t) Social investment in Fundação Telefônica, innovative use of technology to enhance learning and knowledge, contributing to personal and social development;

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

v) Adquira Sourcing platform - online solution provided by Telefónica Compras Electrónicas to transact purchase and sale of all types of goods and services;

w) Digital media; marketing and sales, in-store and outdoor digital marketing services provided by Telefônica On The Spot Soluções Digitais Brasil; and

x) Tower operations of the Company's towers and customer portfolio to Telxius Torres Brasil.

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

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

The following table summarizes the consolidated balances with related parties:

	Type of transaction	Balance Sheet - Assets				
		09/30/18 Cash and cash equivalents	Accounts receivable, net	Other assets	12/31/17 Cash and cash equivalents	Accounts receivable, net
<u>Companies</u>						
<u>Parent Companies</u>						
SP						
Telecomunicações						
Participações	d) / l)	-	-	9,584	-	531
Telefónica						
LatinoAmerica						
Holding	l)	-	-	58,271	-	- 135
Telefónica	l)	-	-	30,488	-	492
		-	-	98,343	-	1,023 135
<u>Other Group</u>						
<u>companies</u>						
Colombia						
Telecomunicaciones						
ESP	k)	-	1,232	5,786	-	1,210 4
Media Networks						
Brasil Soluções						
Digitais	a) / d)	-	1,345	169	-	1,017 2
T.O2 Germany						
GMBH CO. OHG	k)	-	20,868	-	-	22,315
Telefónica						
Venezolana (former						
Telcel Telecom.						
Celulares C. A.)	k)	-	5,899	2,196	-	6,067

Telefônica Digital							
España	g) / h) / l)	-	198	2,851	-	-	1,929
Telefônica Factoring do Brasil	a) / d) / l)	-	5,135	111	-	-	12,337
Telefónica Global Technology	l)	-	-	15,136	-	-	13
Telefônica Inteligência e Segurança Brasil	a) / d) / l)	-	806	1,030	-	-	271
Telefónica International Wholesale Services Espanha	j) / k)	-	73,107	-	-	-	69,087
Telefônica Serviços de Ensino (former Telefônica Learning Services Brasil)	a)	-	368	-	-	-	175
Telefónica Mviles Argentina	k)	-	4,386	-	-	-	7,194
Telefónica Mviles Del Espanha	k)	-	9,529	-	-	-	8,918
Telefónica USA	j)	-	8,908	-	-	-	6,248
Telfisa Global BV	q)	14,787	-	-	9,523	-	-
Telxius Cable Brasil	a) / d) / l) / p)	-	51,736	5,326	-	-	28,981
Telxius Torres Brasil	d) / p) / x)	-	10,358	5,406	-	-	14,666
Terra Networks Chile, Terra Networks México, Terra Networks Perú and Terra Networks Operation	g) / h)	-	4,691	-	-	-	8,159
Other	a) / d) / g) / h) / k) / l) / p)	-	10,789	3,914	-	-	11,424
		14,787	209,355	41,925	9,523	199,998	31
Total		14,787	209,355	140,268	9,523	201,021	166
Current		14,787	209,355	138,993	9,523	201,021	164
Non-current		-	-	1,275	-	-	2

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

		Balance Sheet 09.30.18	
		Trade accounts payable	
	Type of transaction	and other payables	Other liabilities
<u>Companies</u>			
<u>Parent Companies</u>			
SP Telecomunicações Participações	l)	-	21,978
Telefónica LatinoAmerica Holding	l)	100	-
Telefónica	l) / m) / n)	450	109,925
		550	131,903
<u>Other Group companies</u>			
Colombia Telecomunicaciones S.A. ESP	k)	1,107	-
Fundação Telefônica	t)	-	141
Media Networks Latina America SAC	b)	10,047	-
Media Networks Brasil Soluções Digitais	f)	38,635	318
T.O2 Germany GMBH CO. OHG	k)	6,117	-
Telefónica Venezolana (former Telcel Telecom. Celulares C. A.)	k)	5,397	-
Telefónica Compras Electrónicas	v)	24,913	-
	g) / h) / l) /		
Telefônica Digital España	o)	54,812	-
Telefônica Factoring do Brasil	l) / s)	-	468
Telefónica Global Technology	e) / l)	19,177	-
Telefônica Inteligência e Segurança Brasil	c) / l)	14,360	27
Telefónica International Wholesale Services Espanha	f) / k)	46,405	-
Telefônica Serviços de Ensino (former Telefônica Learning Services Brasil)	r)	18,286	-
Telefónica Moviles Argentina	k)	4,434	-
Telefónica Moviles Del Espanha	k)	7,032	-
Telefónica USA	f)	16,585	207
Telxius Cable Brasil	f) / l)	80,428	2,067
Telxius Torres Brasil	l) / x)	34,294	6,337
Terra Networks México, Terra Networks Perú and Terra Networks Operation	h)	1,060	-

	g) / h) / i) / k) / l) / u) / w)	23,089	1,174
Other		406,178	10,739
Total		406,728	142,642
Current		406,728	130,702
Non-current		-	11,940

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

	Type of transaction	Operating revenues	Income statement		
			09.30.18 Cost, despesas and other expenses	Financial result	Operating revenues
Companies					
Parent Companies					
SP Telecomunicações Participações	d) / l)	-	253	-	-
Telefónica LatinoAmerica Holding	l)	-	12,583	10,964	-
Telefónica	l) / m) / n)	-	(263,997)	(18,321)	(4)
		-	(251,161)	(7,357)	(4)
Other Group companies					
Colombia Telecomunicaciones S.A. ESP	k)	110	(471)	761	463
Companhia AIX de Participações	a) / u)	-	-	-	23
Fundação Telefônica	l) / t)	-	(9,778)	-	-
Media Networks Brasil Soluções Digitais	a) / d) / f)	1,588	(81,290)	-	252
Media Networks Latina America SAC	b)	-	(24,523)	(1,250)	-
Telefônica Serviços de Ensino (former Telefônica Learning Services Brasil)	a) / r)	947	(38,418)	-	224
T.O2 Germany GMBH CO. OHG	k)	137	(1,948)	-	(39)
Telefónica Compras Electrónicas	v)	-	(25,094)	-	-
Telefônica Digital Espanha	g) / h) / l) / o)	-	(92,229)	512	-
Telefônica Factoring do Brasil	a) / d) / l) / s)	4,244	159	64	56
Telefónica Global Technology, S.A.U.	e) / l)	4	(37,746)	(1,368)	-
Telefônica Inteligência e Segurança Brasil	a) / c) / d) / l)	1,188	(23,817)	-	563
Telefónica International Wholesale Services Espanha	f) / j) / k)	41,397	(42,686)	6,696	48,723
Telefónica Mviles Argentina	k)	5,360	(2,975)	-	2,980
Telefónica Mviles Del Espanha	k)	(249)	(4,898)	-	675

Telefónica USA	f) / j)	1,299	(4,431)	281	2,104	
	a) / d) / f) /					
Telxius Cable Brasil	l) / p)	46,702	(150,227)	(7,453)	11,088	(1
	d) / l) / p) /					
Telxius Torres Brasil	x)	2,450	(88,062)	-	-	
Terra Networks Chile, Terra Networks México, Terra Networks Perú and Terra Networks Operation	g) / h)	-	(3,259)	786	-	
	a) / d) / g) /					
	h) / i) / k) /					
	l) / p) / u) /					
Other	w)	3,315	(42,037)	1,083	7,643	
		108,492	(673,730)	112	74,755	(5
Total		108,492	(924,891)	(7,245)	74,751	(7

b) Management compensation

Consolidated key management personnel compensation paid by the Company to its Board of Directors and Statutory Officers were R\$17,954 and R\$16,101 for the nine-month ended September 30, 2018 and 2017 respectively. Of this amount, R\$12,570 (R\$10,455 at September 30, 2017) corresponds to salaries, benefits and social charges and R\$5,384 (R\$5,646 at September 30, 2017) to variable compensation.

These amounts were recorded as expenses with personnel under the General and administrative expenses group of accounts (Note 24).

For the nine-month ended September 30, 2018 and 2017, our Directors and Officers did not receive any pension, retirement or similar benefits.

28) SHARE-BASED PAYMENT PLANS

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

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

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Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three and nine-month periods ended September 30, 2018

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

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

The details of these plans are the same as in Note 29) Share-Based Payment Plans, as disclosed in the financial statements for the fiscal year ended December 31, 2017.

The main plans in force at September 30, 2018 were:

- Performance & Investment Plan ("PIP") to reward senior management's global commitment: cycle 2015-2018 (October 1, 2015 to September 30, 2018): finalized in September 2018 and, since the TSR was not reached, there was no delivery of shares of Telefônica to the Company's executives.
- Talent for the Future Share Plan ("TFSP") to reward the global commitment: cycle 2015-2018 cycle (October 1, 2015 to September 30, 2018): finalized in September 2018 and, since the TSR was not reached, there was no delivery of shares of Telefônica to the Company's executives.

Cycle 2018-2020 (January 1, 2018 to December 31, 2020): having the potential right to receive 123,250 shares of Telefônica (includes initial amounts). The delivery of the shares is subject to: (i) maintaining an active working relationship with the Telefônica Group on the date of consolidation of the cycle; and (ii) the achievement of results that represent the fulfillment of the objectives established for the plan.

- Performance Share Plan ("PSP") to reward the global commitment: 2018-2020 cycle (January 1, 2018 to December 31, 2020): with 116 active executives (including 3 executives appointed under the Telefônica,

having the potential right to receive 990,660 shares of Telefónica. The delivery of the shares is subject to: (i) maintaining an active working relationship with the Telefónica Group on the date of consolidation of the cycle; and (ii) the achievement of results that represent the fulfillment of the objectives established for the plan.

At September 28, 2018, the value of Telefónica' share price was Eur 6.8180.

The expenses of the Company and its subsidiaries with the share-based compensation plans described above, where applicable, are recorded as personnel expenses, divided into the groups Cost of Services, Selling expenses and General and Administrative Expenses (Note 24), corresponding to R\$11,196 and R\$5,540 for the nine-month periods ended September 30, 2018 and 2017.

29) PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

The details of these plans are the same as in Note 30) Pension Plans and Other Post-Employment Benefits, as disclosed in the financial statements for the fiscal year ended December 31, 2017.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

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

	Plans with surplus	Consolidated Plans with deficit	Total
Balances at 12/31/16	9,041	(327,670)	(318,629)
Current service cost	(2,362)	(5,754)	(8,116)
Net interest on net defined benefit liabilities/assets	884	(26,805)	(25,921)
Contributions and benefits paid by the employers	2,096	8,241	10,337
Business combinations (Note 1.c)	13	(680)	(667)
Balances at 09/30/17	9,672	(352,668)	(342,996)
Current service cost	(295)	(2,239)	(2,534)
Net interest on net defined benefit liabilities/assets	259	(8,921)	(8,662)
Contributions and benefits paid by the employers	(358)	3,741	3,383
Effects on comprehensive income	555	(171,851)	(171,296)
Balances at 12/31/17	9,833	(531,938)	(522,105)
Current service cost	(1,834)	(10,656)	(12,490)
Net interest on net defined benefit liabilities/assets	767	(39,741)	(38,974)

Contributions and benefits paid by the employers	1,476	13,128	14,604
Balances at 09/30/18	10,242	(569,207)	(558,965)

Of the surplus amounts shown in the table above, the Company recognized consolidated amounts of R\$10,242 and R\$9,833 at September 30, 2018 and December 31, 2017, respectively (Note 10).

30) FINANCIAL INSTRUMENTS AND RISK AND CAPITAL MANAGEMENT

a) Derivative transactions

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

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

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

At September 30, 2018 and December 31, 2017, the Company held no embedded derivatives contracts.

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

a.1) Fair value of derivative financial instruments

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

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

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

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

Description	Notional Value		Consolidated Accumulated effects from fair value Amount receivable (payable)	
	09.30.18	12.31.17	09.30.18	12.31.17
<u>Long position</u>	1,140,593	1,181,056	132,830	164,405
<u>Foreign Currency</u>	300,991	326,149	84,164	102,876
US\$ (1) (2)	188,953	201,445	38,534	49,110
EUR (2)	52,194	11,000	6,219	449
LIBOR US\$ (1)	59,844	113,704	39,411	53,317
<u>Floating rate</u>	686,135		20,394	28,263

		657,868		
CDI (1) (2)	478,603	263,518	9,029	82
TJLP (4)	207,532	394,350	11,365	28,181
<u>Inflation rates</u>	153,467	197,039	28,272	33,266
IPCA (3) (5)	153,467	166,775	28,272	33,266
IGPM (6)	-	30,264	-	-
<u>Short position</u>	(1,140,593)	(1,181,056)	(21,627)	(20,651)
<u>Floating rate</u>	(632,068)	(860,686)	(21,627)	(20,651)
CDI (1) (2) (3) (4) (5) (6)	(632,068)	(860,686)	(21,627)	(20,651)
<u>Foreign Currency</u>	(508,525)	(320,370)	-	-
US\$ (2)	(352,097)	(183,824)	-	-
EUR (1) (2)	(126,506)	(79,694)	-	-
LIBOR US\$ (1)	(29,922)	(56,852)	-	-
	Long position		132,830	164,405
	Current		105,785	87,643
	Non-current		27,045	76,762
	Short position		(21,627)	(20,651)
	Current		(3,005)	(5,239)
	Non-current		(18,622)	(15,412)
	Amounts receivable, net		111,203	143,754

(1) Foreign currency swaps (US\$ and LIBOR) x CDI (R\$145,968) - swap transactions for varying debt repayment dates held to hedge currency risk affecting the Company's loans in US\$ (carrying amount R\$142,631).

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(2) Foreign currency swaps (Euro and CDI x Euro) (R\$67,940) and (US\$ and CDI x US\$) (R\$194,189) - maturing through November 13, 2018 to hedge currency risk affecting net amounts payable (carrying amount R\$67,964 in euros) and receivables (carrying amount R\$194,173 in US\$).

(3) IPCA x CDI rate swaps (R\$41,745) - maturing through 2019 to hedge the same flow as the debentures (4th issue - 3rd series) indexed to the IPCA (carrying amount R\$42,236).

(4) TJLP x CDI swaps (R\$217,915) - maturing through 2019 to hedge the risk of TJLP variation on loan with BNDES (carrying amount R\$228,605).

(5) IPCA x CDI swaps (R\$226,421) - maturing in 2033 to hedge risk of change in finance lease rate pegged to IPCA (carrying amount R\$227,154).

(6) The information of December 31, 2017 refers to the IGPM swap x CDI, swap operations contracted with the purpose of protecting the risk of IGPM variation in regulatory commitments linked to a 4G license. The commitment of the 4G license was withdrawn from the EAD on January 31, 2018 for the R\$42,842 (note 21) and the respective swap operations were finalized on the same date.

The table below shows the breakdown of swaps maturing after September 30, 2018:

Swap contract	2018	Company / Consolidated	
		2019	2020
		Maturing in	

				2021 onwards	Amount receivable (payable) at 09.30.18
Foreign currency x CDI	23,330	53,576	-	-	76,906
CDI x Foreign Currency	13,511	(223)	-	-	13,288
TJLP x CDI	4,317	7,048	-	-	11,365
IPCA x CDI	232	10,574	1,457	(2,619)	9,644
Total	41,390	70,975	1,457	(2,619)	111,203

For the purposes of preparing its financial statements, the Company adopted the fair value hedge accounting methodology for its foreign currency swaps x CDI, IPCA x CDI and TJLP x CDI for hedging or financial debt. Under this arrangement, both derivatives and hedged risk are recognized at fair value.

The ineffective portion at September 30, 2018 was R\$955 (R\$1,289 at December 31, 2017).

At September 30, 2018 and 2017, the transactions with derivatives generated consolidated negative (net) result of R\$5,113 and R\$63,852, respectively (Note 26).

a.2) Sensitivity analysis to the Company's risk variables

CVM Resolution 604/09 requires listed companies to comply with CPC 40 (R1) Financial Instruments: Disclosures (IFRS 7) by disclosing sensitivity analyses for each type of market risk that management understands to be significant when originated by financial instruments to which the entity is exposed at the end of each period, including all derivatives financial instrument transactions.

In making the above analysis, each of the transactions with derivative financial instruments was assessed and assumptions included a probable scenario and two others that could adversely impact the Company.

In the probable scenario the assumption is to use, on the maturity dates of each of the transactions, what the market had been showing through B3 yield curves (currencies and interest rates), as well as data available at IBGE, Central Bank, FGV, among others. In the probable scenario, there is no impact on the fair value of the above-mentioned derivatives. However, for scenarios II and III, as per CVM ruling, risk variables were considered to deteriorate by 25% and 50% respectively.

Since the Company only holds derivatives to hedge its foreign-currency assets and liabilities, changing scenarios are tracked by the corresponding hedged items, thus showing that effects are almost non-existent. For these transactions, the Company reported the consolidated net exposure in each of the

above-mentioned three scenarios at September 30, 2018.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of Reais, unless otherwise stated)**

<u>Transaction</u>	<u>Risk</u>	Consolidated	Probable 25% deprec
Hedge (long position)	Derivatives (depreciation risk EUR)	(67,940)	(84)
Payables in EUR	Debt (appreciation risk EUR)	(26,266)	(32)
Receivables in EUR	Debt (depreciation risk EUR)	94,250	11
	Net Exposure	44	
Hedge (short position)	Derivatives (depreciation risk US\$)	(194,189)	(242)
Payables in US\$	Debt (appreciation risk US\$)	(210,130)	(262)
Receivables in US\$	Debt (depreciation risk US\$)	404,303	50
	Net Exposure	(16)	
Hedge (long position)	Derivatives (risk of decrease in IPCA)	268,168	24
Debt in IPCA	Debt (risk of increase in IPCA)	(348,141)	(328)
	Net Exposure	(79,973)	(79)
Hedge (long position)	Derivatives (risk of decrease in UMBND)	145,968	18
Debt in UMBND	Debt (risk of increase in UMBND)	(142,631)	(178)
	Net Exposure	3,337	
Hedge (long position)	Derivatives (risk of decrease in TJLP)	217,915	21
Debt in TJLP	Debt (risk of increase in TJLP)	(1,098,823)	(1,097)
	Net Exposure	(880,908)	(880)
Hedge (CDI position)			
Hedge US\$ and EUR (short and long position)	Derivatives (risk of decrease in CDI)	(274,096)	(273)
Hedge IPCA (short position)	Derivatives (risk of increase in CDI)	(268,168)	(248)
Hedge UMBND (short position)	Derivatives (risk of increase in CDI)	(145,968)	(181)
Hedge TJLP (short position)	Derivatives (risk of increase in CDI)	(217,915)	(216)
	Net Exposure	(906,147)	(920)
Total net exposure in each scenario		(1,863,663)	(1,877)

Net effect on changes in current fair value

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

The assumptions used by the Company for the sensitivity analysis at September 30, 2018 were as follows:

<u>Risk Variable</u>	Probable	25% depreciation	50% depreciation
US\$	4.0039	5.0049	6.0059
EUR	4.6375	5.7969	6.9563
JPY	0.0353	0.0441	0.0529
IPCA	4.44%	5.55%	6.66%
IGPM	10.04%	12.54%	15.05%
IGP-DI	10.04%	12.55%	15.07%
UMBND	0.0782	0.0977	0.1172
TJLP	0.0656	0.0820	0.0984
CDI	6.39%	7.99%	9.59%

For calculation of the net exposure for the sensitivity analysis, all derivatives were considered at market value and hedged items designated for hedge for accounting purposes were also considered at fair value.

The fair values shown in the table above are based on the portfolio position at September 30, 2018, but do not reflect an estimate for realization due to the dynamism of the market, which is constantly monitored by the Company. The use of different assumptions could significantly affect the estimates.

b) Fair value

The Company and its subsidiaries assessed their financial assets and liabilities in relation to market values using available information and appropriate valuation methodologies. However, both the interpretation of market data and the selection of valuation methods require considerable judgment and reasonable estimates to produce the most adequate realization value. As a result, the estimates shown do not necessarily indicate amounts that could be realized in the current market. The use of different assumptions for the market and/or methodologies may have a material effect on estimated realization values. At

September 30, 2018 and December 31, 2017, neither the Company nor its subsidiaries detected any significant and enduring impairment of their financial instruments.

The fair value of all assets and liabilities are classified within the fair value hierarchy described below, based on the lowest level of information that is significant to the fair value measurement as a whole:

Level 1: quoted market prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: valuation techniques for which significant lower level of information to measure the fair value directly or indirectly observable; and

Level 3: valuation techniques for which the lowest and significant level of information to measure the fair value is not available.

The following tables show the composition and classification of financial assets and liabilities at September 30, 2018 and December 31, 2017, considering the assumptions of IFRS 9. During the periods shown in the tables below, there were no transfers between fair value measurements of Level 3 and levels 1 and 2.

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Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

	Classification by category	Fair value hierarchy	Company Book value		Fair value	
			09.30.18	12.31.17	09.30.18	12.31.17
Financial Assets						
Current						
Cash and cash equivalents - Cash and banks (Note 3)	Amortized cost		113,099	114,556	113,099	114,556
Cash and cash equivalents - Short-term investments (Note 3)	Measured at fair value through profit or loss	Level 2	3,236,593	3,566,617	3,236,593	3,566,617
Trade accounts receivable (Note 4)	Amortized cost		8,566,785	8,413,403	8,566,785	8,413,403
Derivative transactions (Note 30)	Measured at fair value through profit or loss	Level 2	15,470	2,480	15,470	2,480
Derivative transactions (Note 30)	Measured at fair value through OCI	Level 2	89,698	85,163	89,698	85,163
Non-current						
Short-term investments pledged as collateral	Measured at fair value through profit or loss	Level 2	79,686	81,472	79,686	81,472
Trade accounts receivable (Note 4)	Amortized cost		173,797	167,682	173,797	167,682
		Level 2	27,045	76,762	27,045	76,762

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Derivative transactions (Note 30)	Measured at fair value through OCI					
Total financial assets			12,302,173	12,508,135	12,302,173	12,508,135
Financial Liabilities						
Current						
Trade accounts payable, net (Note 15)	Amortized cost		9,054,673	8,560,844	9,054,673	8,560,844
Loans, financing and finance lease (Note 20)	Amortized cost		1,079,900	1,316,034	1,203,861	1,463,609
Loans, financing and finance lease (Note 20)	Measured at fair value through profit or loss	Level 2	361,899	304,921	302,068	317,231
Debentures (Note 20)	Amortized cost		66,811	1,412,174	247,288	1,532,427
Debentures (Note 20)	Measured at fair value through profit or loss	Level 2	1,537	312	1,576	1,490
Derivative transactions (Note 30)	Measured at fair value through profit or loss	Level 2	2,632	4,372	2,632	4,372
Derivative transactions (Note 30)	Measured at fair value through OCI	Level 2	373	735	373	735
Non-current						
Loans, financing and finance lease (Note 20)	Amortized cost		924,017	1,353,582	870,909	1,291,974
Loans, financing and finance lease (Note 20)	Measured at fair value through profit or loss	Level 2	320,149	520,421	318,276	505,422
Contingent consideration (Note 20)	Measured at fair value through profit or loss	Level 2	461,026	446,144	461,026	446,144
Debentures (Note 20)	Amortized cost		3,049,599	3,068,243	2,878,927	2,866,372
Debentures (Note 20)	Measured at fair value through profit or loss	Level 2	40,699	40,010	39,980	37,717
Derivative transactions (Note 30)	Measured at fair value through OCI	Level 2	18,622	15,412	18,622	15,412
Total financial liabilities			15,381,937	17,043,204	15,400,211	17,043,749

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	Classification by category	Fair value hierarchy	Consolidated Book value		Fair value	
			09.30.18	12.31.17	09.30.18	12.31.17
Financial Assets						
Current						
Cash and cash equivalents - Cash and banks (Note 3)	Amortized cost		113,070	117,799	113,070	117,799
Cash and cash equivalents - Short-term investments (Note 3)	Measured at fair value through profit or loss	Level 2	3,600,684	3,932,539	3,600,684	3,932,539
Trade accounts receivable (Note 4)	Amortized cost		8,670,107	8,588,466	8,670,107	8,588,466
Derivative transactions (Note 30)	Measured at fair value through profit or loss	Level 2	16,087	2,480	16,087	2,480
Derivative transactions (Note 30)	Measured at fair value through OCI	Level 2	89,698	85,163	89,698	85,163
Non-current						
Short-term investments pledged as collateral	Measured at fair value through profit or loss	Level 2	79,953	81,486	79,953	81,486
Trade accounts receivable (Note 4)	Amortized cost	Level 2	331,481	273,888	331,481	273,888
			27,045	76,762	27,045	76,762

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Derivative transactions (Note 30)	Measured at fair value through OCI					
Total financial assets			12,928,125	13,158,583	12,928,125	13,158,583
Financial Liabilities						
Current						
Trade accounts payable (Note 15)	Amortized cost		8,109,680	7,447,100	8,109,680	7,447,100
Loans, financing and finance lease (Note 20)	Amortized cost		1,079,900	1,316,034	1,203,861	1,463,609
Loans, financing and finance lease (Note 20)	Measured at fair value through profit or loss	Level 2	361,899	304,921	302,068	317,231
Debentures (Note 20)	Amortized cost		66,811	1,412,174	247,288	1,532,427
Debentures (Note 20)	Measured at fair value through profit or loss	Level 2	1,537	312	1,576	1,490
Derivative transactions (Note 30)	Measured at fair value through profit or loss	Level 2	2,632	4,504	2,632	4,504
Derivative transactions (Note 30)	Measured at fair value through OCI	Level 2	373	735	373	735
Non-current						
Loans, financing and finance lease (Note 20)	Amortized cost		924,017	1,353,582	870,909	1,291,974
Loans, financing and finance lease (Note 20)	Measured at fair value through profit or loss	Level 2	320,149	520,421	318,276	505,422
Debentures (Note 20)	Amortized cost		3,049,599	3,068,243	2,878,927	2,866,372
Debentures (Note 20)	Measured at fair value through profit or loss	Level 2	40,699	40,010	39,980	37,717
Contingent consideration (Note 20)	Measured at fair value through profit or loss	Level 2	461,026	446,144	461,026	446,144
Derivative transactions (Note 30)	Measured at fair value through OCI	Level 2	18,622	15,412	18,622	15,412
Total financial liabilities			14,436,944	15,929,592	14,455,218	15,930,137

c) Capital management

The purpose of the Company's capital management is to ensure maintenance of a high credit rating before institutions and an optimal capital ratio in order to support the Company's business and maximize shareholder value.

The Company manages its capital structure by making adjustments and adapting to current economic conditions. For this purpose, the Company may pay dividends, obtain new loans, issue debentures and contract derivatives. For the quarter ended September 30, 2018, there were no changes in capital structure objectives, policies or processes.

In its net debt structure, the Company includes balances referring to loans, financing, debentures, finance leasing, contingent consideration and transactions with derivatives, less cash and cash equivalents, short-term investments to secure BNB financing and guarantor of the contingent consideration liability.

The Company's ratio of consolidated debt to shareholders' equity consists of the following:

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	Consolidated	
	09.30.18	12.31.17
Cash and cash equivalents	3,713,754	4,050,338
Loans, financing, debentures, financial lease and contingent consideration	(6,305,637)	(8,461,841)
Derivative transactions, net	111,203	143,754
Short-term investment pledged as collateral	12,285	11,722
Asset guarantor of contingent consideration	461,026	446,144
Net debt	2,007,369	3,809,883
Net equity	71,461,496	69,461,358
Net debt-to-equity ratio	2.81%	5.48%

d) Risk management policy

The Company and its subsidiaries are exposed to several market risks as a result of its commercial operations, debts contracted to finance its activities and debt-related financial instruments.

d.1) Currency Risk

There is risk arising from the possibility that the Company may incur losses due to fluctuating exchange rates, which add to costs arising from loans denominated in foreign currencies.

At September 30, 2018, 2.3% of financial debt was foreign-currency denominated (2.7% at December 31, 2017). The Company enters into derivative transactions (currency hedge) with financial institutions to hedge against exchange rate variation affecting its total indebtedness in foreign currency (R\$142,631 and R\$225,254 at September 30, 2018 and December 31, 2017, respectively). Its total debt on these dates was

covered by asset positions in currency-exchange hedge transactions with CDI-rate swaps.

There is also foreign exchange risk for non-financial assets and liabilities denominated in foreign currencies, which may generate a smaller amount receivable or larger amount payable depending on the exchange rate in the period.

Hedging transactions were contracted to minimize the risks associated with exchange-rate variation of non-financial assets and liabilities in foreign currencies. This balance is subject to daily changes due to the dynamics of the business. However, the Company intends to cover the net balance of these rights and obligations (US\$48,496 thousand and €14,660 thousand receivable at September 30, 2018 and US\$16,953 thousand and €17,535 thousand receivable at December 31, 2017) to mitigate its foreign exchange risks.

d.2) Interest and Inflation Risk

This risk arises because the Company may incur losses in the event of an unfavorable change in the domestic interest rate, which may adversely affect financial expenses resulting from the portion of debentures referenced to the CDI and liability positions in derivatives (currency hedge, IPCA and TJLP) pegged to floating interest rates (CDI).

The debt with BNDES is indexed to the Long-Term Interest Rate (TJLP) which is set on a quarterly basis by the National Monetary Council. In the first quarter of 2017, the TJLP was 7.5%. As of the second quarter of 2017, the TJLP remained at 7.0% up to the end of the year. In the first quarter of 2018, the TJLP was 6.75%, declining to 6.60% in the second quarter of 2018, declining to 6.56% in the third quarter of 2018.

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Inflation risk arises from the “Minas Comunica” debentures of the 1st issue, which are tied to the IPCA and thus may adversely affect financial expenses in the event of an unfavorable change in this index.

To reduce exposure to the variable interest rate (CDI), the Company and its subsidiaries invested their cash equivalents of R\$3,600,684 at September 30, 2018 (R\$3,932,539 at December 31, 2017), mostly in short-term CDI-based financial investments (Bank Deposit Certificates). The carrying amounts of these instruments approximate their fair values, as they may be redeemed in the short term.

d.3) Liquidity Risk

Liquidity risk is the possibility of the Company or its subsidiaries not holding sufficient funds to meet their commitments due to different currencies and dates of realization of rights and settlement of obligations.

The Company structures the maturity dates of non-derivative financial contracts, as shown in Note 20, and their respective derivatives, as shown in the schedule of payments disclosed in this note, to avoid affecting their liquidity.

The Company’s cash flow and liquidity are managed on a daily basis by the departments in charge to ensure that operating cash flows and prior funding, when necessary, will be sufficient to meet their schedule of commitments in order to avoid liquidity risk.

Below, we summarize the maturity profile of our consolidated financial liabilities as set forth in loan agreements:

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	Less than one year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
At 09.30.18					
Trade accounts payable (Note 15)	8,109,680	-	-	-	8,109,680
Loans, financing and finance lease (Note 20)	1,441,799	454,743	613,938	175,485	2,685,965
Contingent consideration (Note 20)	-	-	-	461,026	461,026
Debentures (Note 20)	68,348	66,948	3,023,350	-	3,158,646
Derivative transactions (Note 30)	3,005	-	-	18,622	21,627
Total	9,622,832	521,691	3,637,288	655,133	14,436,944
At 12.31.17					
Trade accounts payable (Note 15)	7,447,100	-	-	-	7,447,100
Loans, financing and finance lease (Note 20)	1,620,955	780,904	885,411	207,688	3,494,958
Contingent consideration (Note 20)	-	-	-	446,144	446,144
Debentures (Note 20)	1,412,486	66,252	3,042,001	-	4,520,739
Derivative transactions (Note 30)	5,239	93	-	15,319	20,651
Total	10,485,780	847,249	3,927,412	669,151	15,929,592

d.4) Credit Risk

The risk arises from the possibility of the Company and its subsidiaries incurring losses due to difficulty in receiving amounts billed to their customers and sales of prepaid handsets and cards that have been pre-activated for the distribution network.

The credit risk on accounts receivable is diversified and mitigated by strict control of the customer base. The Company constantly monitors the level of accounts receivable from postpaid services, and limits bad-debt risk by cutting off access to telephone lines if bills are past due. The mobile customer base predominantly uses the prepaid system, which requires purchase of credits beforehand and therefore does not pose credit risk. Exceptions are made for emergency services that must be maintained for security or national defense reasons.

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Credit risk on sales of pre-activated prepaid handsets and cards is managed by a conservative policy for granting credit, using modern credit scoring methods, analyzing financial statements and consultations to commercial databases, in addition to requesting guarantees.

The Company and its subsidiaries are also subject to credit risk arising from their investments, letters of guarantee received as collateral for certain transactions and receivables from derivative transactions. The Company and its subsidiaries control the credit limits granted to each counterpart and diversify this exposure across first tier financial institutions as per current credit policies of financial counterparties.

d.5) Social and Environmental Risks

Our operations and properties are subject to various environmental laws and regulations that, among others, govern environmental licenses and records, protection of fauna and flora, air emissions, waste management and remediation of contaminated sites. If we fail to meet present and future requirements, or to identify and manage new or existing contamination, we will incur in significant costs, which include cleaning costs, damages, compensation, fines, activities suspension and other penalties, investments to improve our facilities or change our processes, or interruption of operations. The identification of environmental conditions not currently identified, more stringent inspections by regulatory agencies, the entry into force of more stringent laws and regulations or other unanticipated events may occur and, ultimately, result in significant environmental liabilities and their costs. The occurrence of any of the above factors could have a material adverse effect on our business, results of operations and financial position. According to Article 75 of Law No. 9605 of 1998, the maximum fine per breach of environmental law is R\$50,000.

From the social point of view, we are exposed to contingent liabilities due to the fact that our structure foresees the hiring of outsourced service providers. These potential liabilities may involve labor claims by employees of the service providers who, in suits against the service provider and Company, request the

conviction of the Company in a subsidiary manner, that is, we may be compelled to pay in the case the provider does not settle these obligations. There is also a more remote possibility that these employees will be treated as direct employees by the Company, which would generate the risk of a joint and several conviction. The demands that are known to Telefónica are already provided.

d.6) Insurance Coverage

The policy of the Company and its subsidiaries, as well as the Telefónica Group, includes contracting insurance coverage for all assets and liabilities involving significant and high-risk amounts, based on management's judgment and following Telefónica corporate program guidelines.

At September 30, 2018, maximum limits of claims (established pursuant to the agreements of each entity consolidated by the Company) for significant assets, liabilities or interests covered by insurance and their respective amounts were R\$850,000 for operational risks (including business interruption) and R\$75,000 for general civil liability.

d.7) Other Risks

The Company is required to comply with Brazilian anti-corruption laws and regulations, as well as laws and regulations on the same subject in jurisdictions where it has its securities traded. In particular, the Company is subject, in Brazil, to the Law No. 12.846/2013 and, in the United States, to the U.S. Foreign Corrupt Practices Act of 1977.

Although the Company has internal policies and procedures designed to ensure compliance with the aforementioned anti-corruption laws and regulations, there can be no assurance that such policies and procedures will be sufficient or that the Company's employees, directors, officers, partners, agents and service providers will not take actions in violation of the Company's policies and procedures (or otherwise in violation of the relevant anti-corruption laws and regulations) for which the Company or they may be ultimately held responsible. Violations of anti-corruption laws and regulations could lead to financial penalties, damage to the Company's reputation or other legal consequences that could have a material adverse effect on the Company's business, results of operations and financial condition.

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

In connection with the above-mentioned policies, the Company is currently conducting an internal investigation - which is part of a broader investigation being conducted by the controlling shareholder of the Company (Telefônica, S.A.) - regarding possible violations of the abovementioned laws and regulations. The Company is in contact with governmental authorities about this matter and intends to cooperate with those authorities as the investigation continues. It is not possible at this time to predict the scope or duration of this matter or its likely outcome.

31) COMMITMENTS AND GUARANTEES (RENTALS)

The Company and its subsidiaries lease equipment, facilities, and several stores, administrative buildings, and sites (containing radio-base stations and towers), through several non-cancellable operating agreements maturing on different dates, with monthly payments.

At September 30, 2018, the total amounts corresponding to the full period of the contracts were as follows:

	Company	Consolidated
Up to 1 year	2,517,801	2,518,350
From 1 to 5 years	7,535,620	7,537,853
Over five years	4,091,974	4,092,705
Total	14,145,395	14,148,908

32) ADDITIONAL INFORMATION ON CASH FLOWSa) Reconciliation of cash flow financing activities

The following is a reconciliation of the consolidated cash flow financing activities for the nine-month periods ended September 30, 2018 and 2017.

	At 12/31/16	Cash flows from financing activities Additions	Write-offs (payments)	Cash flows from operating activities Write-offs (payments)	Financing activities net cash and cash equivalents Financial charges and foreign exchange variation	Additions of financial lease and supplier financing
Interim dividends and interest on equity	2,195,031	-	(1,304,161)	-	-	-
Loans and financing	4,880,606	39,878	(1,523,798)	(240,508)	269,747	280,019
Finance lease	374,428	-	(27,667)	(8,985)	41,355	9,061
Debentures	3,554,307	2,000,000	(2,000,000)	(446,309)	414,093	-
Derivative financial instruments	(28,377)	-	(55,316)	980	63,876	-
Contingent Consideration	414,733	-	-	-	25,663	-
Total	11,390,728	2,039,878	(4,910,942)	(694,822)	814,734	289,080

(A free translation of the original in Portuguese)

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three and nine-month periods ended September 30, 2018****(In thousands of *Reais*, unless otherwise stated)**

	At 12/31/17	Cash flows from financing activities	Write-offs (payments)	Cash flows from operating activities	Write-offs (payments)	Financing activities net cash and cash equivalents	Financial charges and foreign exchange variation	Additions of financial lease and supplier financing
Interim dividends and interest on equity	2,396,116	-	(2,003,224)	-	-	-	-	-
Loans and financing	3,109,498	-	(1,172,354)	(168,458)	191,045	349,715	-	-
Finance lease	385,460	-	(27,224)	(10,425)	15,255	13,453	-	-
Debentures	4,520,739	-	(1,324,723)	(231,702)	194,332	-	-	-
Derivative financial instruments	(143,754)	-	25,517	-	7,034	-	-	-
Contingent Consideration	446,144	-	-	-	14,882	-	-	-
Total	10,714,203	-	(4,502,008)	(410,585)	422,548	363,168	-	-

b) Financing transactions that do not involve cash

The main transactions that do not involve cash of the Company refer to the acquisition of assets through financial leases and income from financing with suppliers, as follows:

Company / Consolidated
Nine-month periods ended
09.30.18 09.30.17

Financing transactions with suppliers	349,715	280,019
Acquisition of assets through financial leases	13,453	9,061
Total	363,168	289,080

33) ADDITIONAL INFORMATION ON THE CONSOLIDATED INCOME STATEMENT - IFRS 15

The information for the nine-month of 2018 of net operating revenues includes the effects of the adoption of IFRS 15. To facilitate the understanding and comparability of information, we present below the consolidated income statement for the nine-month periods ended September 30, 2018 and 2017, excluding the effects of adopting IFRS 15 in 2018.

	Nine-month period ended 09.30.18		Nine-month period ended 09.30.17	
	Income Statements (IFRS 15)	IFRS adjustments 15	Income Statements (IAS 18)	Income Statements (IAS 18)
Net operating revenue	32,377,261	(23,077)	32,354,184	32,173,292
Cost of sales and services	(15,426,953)	-	(15,426,953)	(15,172,547)
Gross profit	16,950,308	(23,077)	16,927,231	17,000,745
Operating income (expenses)	(9,217,666)	(40,399)	(9,258,065)	(12,144,321)
Selling expenses	(9,653,228)	(40,399)	(9,693,627)	(9,812,347)
General and administrative expenses	(1,896,390)	-	(1,896,390)	(1,834,996)
Other operating income	3,780,383	-	3,780,383	270,572
Other operating expenses	(1,448,431)	-	(1,448,431)	(767,550)
Operating income	7,732,642	(63,476)	7,669,166	4,856,424
Financial income	3,699,511	-	3,699,511	1,513,353
Financial expenses	(1,747,420)	-	(1,747,420)	(2,238,523)
Equity pickup	(4,914)	-	(4,914)	1,362
Income before taxes	9,679,819	(63,476)	9,616,343	4,132,616
Income and social contribution taxes	(2,238,239)	21,582	(2,216,657)	(1,040,781)
Net income for the period	7,441,580	(41,894)	7,399,686	3,091,835

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 1, 2018

TELEFÔNICA BRASIL S.A.
By: /s/ Luis Carlos da Costa Plaster
Name: Luis Carlos da Costa Plaster
Title: Investor Relations Director
