

TELEFONICA BRASIL S.A.
Form 6-K
March 09, 2016

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

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

For the month of March, 2016

Commission File Number: 001-14475

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

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

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

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

Form 20-F

Form 40-F

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

Yes

No

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

Yes

No

X

TELEFÔNICA BRASIL S.A.

QUARTERLY INFORMATION

DECEMBER 31, 2015

A free translation from Portuguese into English of Independent Auditor's Report on Individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB)

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The Shareholders, Board of Directors and Officers

Telefônica Brasil S.A.

São Paulo - SP

We have audited the accompanying individual and consolidated financial statements of Telefônica Brasil S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2015, and the related statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Brazilian and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Company's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Telefônica Brasil S.A. as at December 31, 2015, its individual and consolidated operating performance and its individual and consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (*IFRS*) issued by the International Accounting Standards Board (IASB).

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added for the year ended December 31, 2015, prepared by the Company's management, the presentation of which is required by Brazilian corporation law for publicly held companies, and as supplementary information under the IFRS, whereby no statement of value added presentation is required. These statements have been subject to the same auditing procedures previously described and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

Audit of prior year corresponding figures

The financial statements for the year ended December 31, 2014 were audited by other independent auditors who expressed an unmodified opinion on those statements on February 12, 2015.

São Paulo, February 19, 2016.

ERNST & YOUNG

Auditores Independentes S.S.

CRC-2SP015199/O-6

Cassio O. Barbosa

Accountant CRC-1SP269018/O-7

Héctor Ezequiel Rodríguez Padilla

Accountant CRC-1SP299427/O-9

TELEFÔNICA BRASIL S.A.**Balance sheets****At December 31, 2015 and 2014****(In thousands of reais)**

ASSETS	Note	Company		Consolidated		LIABILITIES
		12.31.15	12.31.14	12.31.15	12.31.14	
Current assets		15,185,519	14,754,381	17,909,303	15,517,368	Current liabilities
Cash and cash equivalents	5	4,206,595	3,835,304	5,336,845	4,692,689	Personnel, salaries
Trade accounts receivable, net	6	7,000,379	6,470,764	8,285,319	6,724,061	Trade accounts payable
Inventories, net	7	558,264	458,488	603,631	479,801	Taxes, charges and contributions
Taxes recoverable	8.1	2,164,544	2,163,404	2,521,292	2,202,662	Dividends and interest on equity
Judicial deposits and garnishments	9	235,343	202,169	235,343	202,169	Provisions for contingencies
Prepaid expenses	10	317,325	300,567	356,446	303,551	Deferred income taxes
Dividends and interest on equity	18	18,645	174,726	489	-	Loans, financial liabilities
Derivative transactions	34	81,306	613,939	81,306	613,939	- contingent contracts
Other assets	11	603,118	535,020	488,632	298,496	Debentures
						Derivative transactions
						Other liabilities
Noncurrent assets		82,387,176	58,382,747	83,775,761	57,547,920	
Short-term investments pledged as collateral		90,863	125,343	109,864	125,353	Noncurrent liabilities
Trade accounts receivable, net	6	217,621	190,288	330,451	299,405	Personnel, salaries
Taxes recoverable	8.1	337,477	340,205	409,653	340,205	Trade accounts payable
Deferred taxes	8.2	-	40,704	711,590	144,817	Taxes, charges and contributions
Judicial deposits and garnishments	9	4,880,489	4,514,783	5,518,120	4,543,056	Deferred taxes
Prepaid expenses	10	28,632	24,346	30,609	26,223	Provisions for contingencies
Derivative transactions	34	417,558	152,843	417,558	152,843	Deferred revenues
Other assets	11	55,228	94,703	62,799	94,925	Loans, financial liabilities
						contingent contracts
Investments	12	24,342,692	1,445,014	101,161	79,805	Debentures
Property, plant and equipment, net	13	22,019,076	20,381,731	30,476,765	20,453,864	Derivative transactions
Intangible assets, net	14	29,997,540	31,072,787	45,607,191	31,287,424	Liabilities for derivative transactions
						Other liabilities
						Equity
						Capital
						Capital reserves
						Income reserves
						Premium on derivative transactions
						interests
						Other components
						Additional paid-in capital
TOTAL ASSETS		97,572,695	73,137,128	101,685,064	73,065,288	TOTAL LIABILITIES AND EQUITY

TELEFÔNICA BRASIL S.A.**Income statements****Years ended December 31, 2015 and 2014****(In thousands of reais, except earnings per share)**

		Company		Consolidated	
	Note	12.31.15	12.31.14	12.31.15	12.31.14
Net operating revenue	24	34,003,769	32,993,687	40,286,815	34,999,966
Cost of services and goods sold	25	(17,062,753)	(16,286,314)	(20,345,076)	(17,222,675)
Gross profit		16,941,016	16,707,373	19,941,739	17,777,291
Operating income (expenses)		(13,159,918)	(12,603,848)	(14,702,141)	(12,668,265)
Selling expenses	25	(10,801,148)	(10,403,171)	(12,005,477)	(10,466,725)
General and administrative expenses	25	(1,887,878)	(1,773,582)	(2,142,459)	(1,803,803)
Other operating income	26	503,944	482,788	538,239	510,622
Other operating expenses	26	(974,836)	(909,883)	(1,092,444)	(908,365)
Operating income		3,781,098	4,103,525	5,239,598	5,109,022
Financial income	27	3,763,877	1,869,331	4,728,665	1,983,381
Financial expenses	27	(4,239,194)	(2,341,430)	(5,576,843)	(2,345,381)
Equity pickup	12	748,526	742,628	2,036	6,944
Income before taxes		4,054,307	4,374,054	4,393,456	4,753,974
Income and social contribution taxes	28	(634,058)	562,605	(973,207)	182,681
Net income for the year		3,420,249	4,936,659	3,420,249	4,936,655
Basic and diluted earnings per common share (in R\$)	29	2.15	4.12		
Basic and diluted earnings per preferred share (in R\$)	29	2.37	4.53		

TELEFÔNICA BRASIL S.A.
Statements of Changes in Equity
Years ended December 31, 2015 and 2014
(In thousands of reais)

			Capital reserves		
	Capital	Premium on acquisition of interest	Special goodwill reserve	Other capital reserves	Treasury shares
Balances at December 31, 2013	37,798,110	(70,448)	63,074	2,735,930	(112,107)
Payment of additional dividend for 2013	-	-	-	-	-
Prescribed equity instruments	-	-	-	-	-
DIPJ adjustment - Tax incentives	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	-
Net income for the year	-	-	-	-	-
Allocation of income:					
Legal reserve	-	-	-	-	-
Interim interest on equity	-	-	-	-	-
Additional proposed dividends	-	-	-	-	-
Balances at December 31, 2014	37,798,110	(70,448)	63,074	2,735,930	(112,107)
Payment of additional dividend for 2014	-	-	-	-	-
Prescribed equity instruments	-	-	-	-	-
DIPJ adjustment - Tax incentives	-	-	-	-	-
Cancelation of treasury shares according to the Special Shareholders' Meeting (SGM) of 3/12/15	-	-	-	(112,107)	112,107
Capital increase – Special Shareholders' Meeting of 04/28/15 15,812,000	-	-	-	-	-
Direct costs on capital increase (net of taxes) according to the Special Shareholders Meeting of 04/28/15	-	-	-	(58,657)	-
Capital increase – Special Shareholders' Meeting of 04/30/15 295,285	295,285	-	-	-	-
Direct costs on capital increase (net of taxes) according to the Special Shareholders Meeting of 04/30/15	-	-	-	(3,776)	-
Capital increase – Merger of GVTPart shares – Special Shareholders' Meeting of 05/28/15	9,666,021	-	-	(1,188,707)	-
Dissenters' right – Acquisition of GVTPart.	-	-	-	-	(87,000)
Premium on acquisition of equity interest by TData	-	(4,940)	-	-	-
Other comprehensive income (loss)	-	-	-	-	-
Net income for the year	-	-	-	-	-
Allocation of income:					
Legal reserve	-	-	-	-	-
Interim interest on equity	-	-	-	-	-
Interim dividends	-	-	-	-	-
Expansion and Modernization Reserve	-	-	-	-	-
Additional proposed dividends	-	-	-	-	-
Balances at December 31, 2015	63,571,416	(75,388)	63,074	1,372,683	(87,000)

At 12.31.15

Outstanding shares (in thousands)

Equity value of Company shares

At 12.31.14

Outstanding shares (in thousands)

Equity value of Company shares

TELEFÔNICA BRASIL S.A.**Cash flow statements****Years ended December 31, 2015 and 2014****(In thousands of reais)**

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Total cash generated by operating activities	7,548,893	8,485,411	9,897,205	9,300,000
Expenses (revenues) not representing changes in cash	12,266,042	10,900,855	15,638,355	12,000,000
Income before taxes	4,054,307	4,374,054	4,393,456	4,700,000
Depreciation and amortization	5,657,646	5,273,256	6,814,951	5,200,000
Foreign exchange gains (losses) on loans	(49,847)	96,036	613,927	
Monetary gains (losses)	282,009	(2,437)	280,280	
Equity pickup	(748,526)	(742,628)	(2,036)	
Losses on write-off/sale of goods	45,545	39,662	66,029	
Provision for impairment - accounts receivable	1,016,816	832,184	1,230,675	800,000
Provision for (reversal) of trade accounts payable	288,769	(198,477)	265,072	(200,000)
Provision (write-off and reversals of) for impairment - inventories	(36,012)	(25,458)	(35,692)	(200,000)
Pension plans and other post-retirement benefits	35,239	33,690	36,666	
Provisions for tax, civil, labor and regulatory contingencies	877,645	546,191	993,508	500,000
Interest expense	785,852	662,944	919,908	600,000
Provision for divestiture	51,822	10,931	58,396	
Provision for customer loyalty program	3,223	907	3,223	
Other	1,554	-	(8)	
Increase or decrease in operating assets and liabilities:	(4,717,149)	(2,415,444)	(5,741,150)	(2,600,000)
Trade accounts receivable	(1,573,764)	(1,791,735)	(1,841,659)	(1,800,000)
Inventories	(63,764)	36,556	(81,820)	
Taxes recoverable	(432,587)	(219,466)	(616,012)	(200,000)
Prepaid expenses	88,621	61,296	111,288	
Other current assets	4,883	(12,862)	(104,706)	
Other noncurrent assets	33,351	33,062	(159,315)	
Personnel, social charges and benefits	(164,768)	258,834	(169,220)	200,000
Trade accounts payable	175,444	496,976	103,346	500,000
Taxes, charges and contributions	(21,610)	618,024	78,436	600,000
Interest paid	(824,952)	(800,302)	(949,386)	(800,000)
Income and social contribution taxes paid	-	(520,740)	(397,070)	(700,000)
Other current liabilities	(1,076,328)	(531,236)	(992,525)	(500,000)
Other noncurrent liabilities	(861,675)	(43,851)	(722,507)	(400,000)
Total cash used in investing activities	(18,601,377)	(7,333,582)	(14,625,707)	(7,600,000)
Acquisition of property, plant and equipment and intangible assets	(5,688,877)	(7,504,464)	(6,792,895)	(7,500,000)
Proceeds from disposal of property, plant and equipment	19,688	19,856	19,902	
Cash paid for acquisition of companies, net of cash acquired	(8,903,954)	-	(8,528,986)	
Capital increase in subsidiary	(5,827,064)	-	-	
Redemption of (investments in) investments in guarantee	-	4,567	-	

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Redemption of (investment in) judicial deposits	13,224	(105,228)	(6,431)	(10,000)
Dividends and interest on equity received	1,102,911	251,687	8	8
Net payment of derivative contracts on acquisition of GVT	682,695	-	682,695	682,695
Total cash generated by (used in) financing activities	11,423,775	(3,627,824)	5,372,658	(3,627,824)
Payment of loans, financing and debentures	(2,279,518)	(1,563,272)	(8,710,567)	(1,563,272)
Loans and debentures raised	1,115,210	318,573	1,285,210	318,573
Payment net of derivative agreements	336,873	63,741	546,805	63,741
Payment for reverse split of shares	-	(245)	-	(245)
Dividend and interest on equity paid	(3,678,665)	(2,446,621)	(3,678,665)	(2,446,621)
Capital increase	16,107,285	-	16,107,285	-
Direct capital increase costs	(89,605)	-	(89,605)	-
Payment to dissenters' rights - shareholders	(87,805)	-	(87,805)	-
Increase (decrease) in cash and cash equivalents	371,291	(2,475,995)	644,156	(1,830,548)
Cash and cash equivalents at the beginning of the year	3,835,304	6,311,299	4,692,689	6,311,299
Cash and cash equivalents at the end of the year	4,206,595	3,835,304	5,336,845	4,692,689
Changes in cash and cash equivalents for year	371,291	(2,475,995)	644,156	(1,830,548)

TELEFÔNICA BRASIL S.A.
Statements of other comprehensive income
Years ended December 31, 2015 and 2014
(In thousands of reais)

	Company		Consolidated
	12.31.15	12.31.14	12.31.15
Net income for the year	3,420,249	4,936,659	3,420,249
Unrealized losses on investments available for sale	(1,870)	(7,643)	(1,870)
Taxes on unrealized losses on investments available for sale	636	2,599	636
	(1,234)	(5,044)	(1,234)
Gains (losses) on derivative transactions	227,167	335,169	227,167
Taxes on gains (losses) on derivative transactions	(77,236)	(113,958)	(77,236)
	149,931	221,211	149,931
Cumulative Translation Adjustments (CTA) on transactions in foreign currency	21,679	(551)	21,679
Other net comprehensive income to be reclassified into income in subsequent periods	170,376	215,616	170,376
Actuarial gains (losses) and limitation effect of the surplus plan assets	408,628	(55,343)	401,500
Tax on actuarial gains (losses) and limitation effect of the surplus plan assets	(138,933)	18,817	(136,510)
	269,695	(36,526)	264,990
Gains (losses) on derivative transactions	(571,777)	-	(571,777)
Taxes on gains (losses) on derivative transactions	194,404	-	194,404
	(377,373)	-	(377,373)
Interest in comprehensive income of subsidiaries	(4,705)	-	-
Other net comprehensive income that shall not be reclassified to P&L for subsequent periods	(112,383)	(36,526)	(112,383)
Comprehensive income for the year, net of taxes	3,478,242	5,115,749	3,478,242

TELEFÔNICA BRASIL S.A.
Statements of value added
Years ended December 31, 2015 and 2014
(In thousands in reais)

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Revenues	46,382,330	44,917,406	54,401,532	47,500,000
Sale of goods and services	46,615,748	45,082,116	54,450,685	47,500,000
Other revenues	783,398	667,474	1,181,522	0
Provision for impairment of trade accounts receivable	(1,016,816)	(832,184)	(1,230,675)	(8,000,000)
Inputs acquired from third parties	(18,347,435)	(17,787,621)	(21,150,142)	(18,800,000)
Cost of goods and products sold and services rendered	(9,843,692)	(9,674,776)	(11,922,285)	(10,600,000)
Materials, electric energy, third-party services and other expenses	(8,523,931)	(8,101,062)	(9,218,942)	(8,100,000)
Loss/recovery of assets	20,188	(11,783)	(8,915)	0
Gross value added	28,034,895	27,129,785	33,251,390	28,700,000
Withholdings	(5,657,646)	(5,273,256)	(6,814,951)	(5,200,000)
Depreciation and amortization	(5,657,646)	(5,273,256)	(6,814,951)	(5,200,000)
Net value added produced	22,377,249	21,856,529	26,436,439	23,500,000
Value added received in transfer	4,512,403	2,611,959	4,730,701	1,000,000
Equity pickup	748,526	742,628	2,036	0
Financial income	3,763,877	1,869,331	4,728,665	1,000,000
Total undistributed value added	26,889,652	24,468,488	31,167,140	25,000,000
Distribution of value added	(26,889,652)	(24,468,488)	(31,167,140)	(25,000,000)
Personnel, social charges and benefits	(2,797,117)	(2,832,181)	(3,561,671)	(2,800,000)
Direct compensation	(1,951,530)	(2,039,202)	(2,498,009)	(2,000,000)
Benefits	(704,297)	(658,993)	(889,715)	(600,000)
Unemployment Compensation Fund (FGTS)	(141,290)	(133,986)	(173,947)	(100,000)
Taxes, charges and contributions	(14,443,130)	(12,563,110)	(16,374,999)	(13,200,000)
Federal	(4,528,902)	(3,016,423)	(5,356,192)	(3,500,000)
State	(9,839,881)	(9,483,392)	(10,818,524)	(9,400,000)
Local	(74,347)	(63,295)	(200,283)	(100,000)
Debt remuneration	(6,229,156)	(4,136,538)	(7,810,221)	(4,100,000)
Interest	(4,164,923)	(2,336,330)	(5,496,055)	(2,300,000)
Rental	(2,064,233)	(1,800,208)	(2,314,166)	(1,800,000)
Equity remuneration	(3,420,249)	(4,936,659)	(3,420,249)	(4,900,000)
Interest on equity	(1,745,925)	(2,092,000)	(1,745,925)	(2,000,000)
Dividends	(270,000)	-	(270,000)	0
Retained profit	(1,404,324)	(2,844,659)	(1,404,324)	(2,800,000)

Telefônica Brasil S. A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

(In thousands of reais, unless otherwise stated)

1) OPERATIONS

a) Background information

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

At December 31, 2015 and 2014, Telefónica S.A. (“Telefónica”), the Group holding company based in Spain, held a total direct and indirect interest in the Company, including treasury shares of 73.58% and 73.81%, respectively (Note 23).

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

b) Operations

The Company is primarily engaged in rendering land-line telephone and data services in the state of São Paulo, under Fixed Switched Telephone Service Concession Arrangement (“STFC”) and Multimedia Communication Service (“SCM”) authorization, respectively. Also, the Company is authorized to render

other telecommunications services, such as SCM (data communication, including broadband internet), SMP (Personal Communication Services) and SEAC (Conditional Access Audiovisual Services), especially by means of DTH and cable technologies.

The Company is the grantee of an STFC concession to render land-line services in the local network and national long distance calls originated in sector 31 of Region III, which comprises the state of São Paulo (except for cities within sector 33), and has authorization for land-line calls originated in Regions I and II, as established in the General Service Concession Plan ("PGO").

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

GVT Participações S.A. ("GVTPart.") is the controlling company of Global Village Telecom S.A. ("GVT"), companies that have been controlled by the Company since May 28, 2015 (Note 4). GVT is the direct controlling company of POP Internet Ltda. ("POP") and indirect controlling company of Innoweb Ltda. ("Innoweb"), Brazil-based entities operating in the telecommunications industry.

GVT is engaged in the provision of STFC, SCM and pay-TV (SEAC) services throughout Brazil. POP is a provider of free Internet access. Innoweb provides telephone services using VoIP technology, which allows calls using the Internet at lower costs than those using conventional telephone technology, using dedicated circuits.

The Company operates SMP services, in accordance with the authorizations it has been given. Frequency authorizations granted by Brazil's Telecommunications Regulatory Agency ("ANATEL") may be renewed only once, over a 15-year period, through payment, every two years after the first renewal, of fees equivalent to 2% of the Company's prior-year revenue, net of taxes and social contribution taxes, related to the application of the Basic and Alternative Service Plans (Note 22).

Telefônica Brasil S. A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

(In thousands of reais, unless otherwise stated)

In the auction for sale of the remaining radiofrequency bands of 1,800 MHz, 1,900 MHz and 2,500 MHz, held by ANATEL on December 17, 2015, the Company was the outbidder of seven 2,500MHz frequency lots, having offered the amount of R\$185,450, as follows: lot E2 DDD11 Greater São Paulo - R\$110,250; lot E18 DDD21 Greater Rio - R\$55,000; lot E39 DDD48 Florianópolis and region - R\$500; lot E43 DDD51 Greater Porto Alegre - R\$16,690; lot E46 DDD54 Caxias do Sul and region - R\$2,085; lot E51 DDD63 Palmas and region - R\$400; and lot E58 DDD67 Dourados and region - R\$525.

As such, the Company will increase its service rendering capacity using 4G technology in important regions of the Brazilian territory, with additional 10+10 MHz band, supplementing the 20+20Mhz band acquired in the 2012 bidding.

The amount payable and use terms shall observe the rules provided in the bidding notice and as defined by ANATEL.

In the auction for sale of national 700MHz frequency, held by ANATEL at September 30, 2014, the Company won lot 3 among the others offered lots. The Authorization Term signed with ANATEL was published in the Federal Official Gazette (“DOU”) on December 8, 2014.

The total amount of this license was of R\$2,770,320, as follows:

§ R\$1,657,502 referring to the total 700 MHz license amount, paid on the date of signature of the Authorization Term.

§ R\$1,112,818 (transaction not affecting cash, adjusted to present value), referring to a portion of the Company’s liability arising from an agreement entered into with ANATEL, whereby the operators that won this auction shall organize Entidade Administradora do Processo de Redistribuição e Digitalização de Canais de TV e RTV (“EAD”), which will be responsible for equally performing all TV and RTV channel redistribution procedures and solutions to harmful interference in radio communication systems. The funds for these procedures shall be transferred by the operators in 4 annual installments adjusted by IGP-DI.

§ The amounts were recorded: (i) in licenses in intangible assets, being amortized over the remaining license term established in the Authorization Term (Note 14) and; (ii) in authorization licenses in current and noncurrent liabilities, for the remaining balance payable (Note 22).

We set out below a summary of the authorizations for rendering SMP service granted to the Company.

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<u>Frequency</u>	License Expiration							
	450 MHz	700 MHz	800 MHz	900 MHz	1800 MHz	1900 MHz	2100 MHz	2.5 GHz
<u>Band</u>	14 MHz	20 MHz	25 MHz	5 MHz	20 MHz	10 MHz	30 MHz	40 MHz
<u>Operation area</u>								
<u>Region 1</u>								
Rio de Janeiro	-	Dec/29	Nov/20 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Espírito Santo	-	Dec/29	Nov/23 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Amazonas. Roraima. Amapá. Pará and Maranhão	-	Dec/29	Nov/28 (1)	Apr/23	Apr/23	-	Apr/23	Oct/27
Minas Gerais (except Triângulo Mineiro)	Oct/27	Dec/29	Apr/23 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Minas Gerais (Triângulo Mineiro)	Oct/27	Dec/29	-	Apr/20 (10)	Apr/20 (10)	Apr/23 (3)	Apr/23 (9)	Oct/27
Bahia	-	Dec/29	Jun/23 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Sergipe	Oct/27	Dec/29	Dec/23 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Alagoas. Ceará. Paraíba. Pernambuco.	Oct/27	Dec/29	-	-	Apr/23	Dec/22 (2)	Apr/23	Oct/27

Piauí and Rio Grande do Norte

Region 2

Paraná (except Sector 20) and Santa Catarina	-	Dec/29	Apr/28 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Paraná sector 20 (5)	-	Dec/29	Apr/28 (1)	-	Apr/23	-	Apr/23	Oct/27
Rio Grande do Sul (except sector 30)	-	Dec/29	Dec/22 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Rio Grande do Sul (sector 30) (11)	-	Dec/29	-	-	Apr/23	Dec/22 (2)	Apr/23	Oct/27
Distrito Federal	-	Dec/29	Jul/21 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Goiás and Tocantins	-	Dec/29	Oct/23 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Goiás (sector 25) (7)	-	Dec/29	-	-	Apr/23	Dec/22 (2)	Apr/23	Oct/27
Mato Grosso	-	Dec/29	Mar/24 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Mato Grosso do Sul (except sector 22)	-	Dec/29	Sept/24 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Mato Grosso do Sul (sector 22) (6)	-	Dec/29	-	-	Apr/23	Dec/22 (2)	Apr/23	Oct/27
Rondônia	-	Dec/29	Jul/24 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Acre	-	Dec/29	Jul/24 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27

Region 3

São Paulo	Oct/27(4)	Dec/29	Ago/23 (1)	-	Apr/23	Apr/23 (3)	Apr/23 (9)	Oct/27
São Paulo (Ribeirão Preto.	Oct/27(4)	Dec/29	Jan/24 (1)	-	Apr/23	Apr/23 (3)	Apr/23	Oct/27

Guatapar and
Bonfim
Paulista)

So Paulo (Franca area and region)	Oct/27(4)	Dec/29	Ago/23 (1)	-	Apr/23	Apr/23 (3)	Apr/23	Oct/27
So Paulo (sector 33) (8)	-	Dec/29	-	-	Apr/23	Dec/22 (2)	Apr/23	Oct/27

(1) All authorization terms of bands A and B were already renewed for 15 years. Therefore, another renewal is not possible (completing 30 years of authorization).

(2) The authorization terms of L band, which were related to bands A or B, were renewed for the same period.

(3) L bands, which were realigned to J band, have the same renewal date of the latter (calculation of the realigned price observed this matter).

(4) In So Paulo, only in cities with CN from 13 to 19, the Company has the 450MHz license, maturing on October 18, 2027.

(5) Paran – Sector 20 of PGO – cities of Londrina and Tamarana.

(6) Mato Grosso do Sul – Sector 22 of PGO – city of Paranaba.

(7) Gois – Sector 25 of PGO – cities of Buriti Alegre, Cachoeira Dourada, Inaciolndia, Itumbiara, Paranaiguara and So Simo.

(8) So Paulo - sector 33 of PGO - cities of Altinpolis, Aramina, Batatais, Brodosqui, Buritizal, Cajuru, Cssia dos Coqueiros, Colmbia, Franca, Guara, Guar, Ipu, Ituverava, Jardinpolis, Miguelpolis, Morro Agudo, Nuporanga, Orlndia, Ribeiro Corrente, Sales de Oliveira, Santa Cruz da Esperana, Santo Antnio da Alegria and So Joaquim da Barra.

(9) Abstract of Authorization Term No. 42/2008 (MG) and No.21/2008 (SP), published in DOU of 4/29/08 and also on 4/30/08, although ANATEL considers 4/30/08 for control purposes, the Company conservatively considers 4/29/08.

(10) Next Authorization Terms to be renewed - E band (MG - Sector 3 - CTBC).

(11) Rio Grande do Sul – sector 30 – cities of Pelotas, Morro Redondo, Capo do Leo and Turuu.

Service concessions and authorizations are granted by ANATEL, under the terms of Law No. 9472 of July 16, 1997 - General Telecommunications Law (“Lei Geral das Telecomunicaes” - LGT), amended by Laws No. 9986 of July 18, 2000 and No. 12485 of September 12, 2011. Operation of such concessions is subject to supplementary regulations and plans.

c) Agreement between Telefónica S.A. and Telecom Itália, S.p.A.

We set out below a brief description of the event occurred in connection with the agreement between Telefónica and Telecom Itália, S.p.A. (“Telecom Itália”).

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TELCO S.p.A. ("TELCO") had a 22.4% interest with voting rights in Telecom Itália, and is the largest shareholder of this company.

Telefónica holds indirect control in Telefónica Brasil and Telecom Itália holds an indirect interest in TIM S.A. ("TIM"), a Brazilian telecommunications company. Neither Telefónica, nor Telefônica Brasil or any other affiliate of Telefónica interfere in, are involved with or have decision-making powers over TIM operations in Brazil, also being lawfully and contractually forbidden to exercise any type of political power derived from indirect interest in relation to TIM operations in Brazil. TIM (Brazil) and Telefônica Brasil compete in all markets in which they operate in Brazil under permanent competitive stress and, in this context, as well as in relation to the other economic players in the telecommunications industry, maintain usual and customary contractual relations with one another (many of which are regulated and inspected by ANATEL) and/or which, as applicable, are informed to ANATEL and Brazil's Administrative Council for Economic Defense (CADE), concerning the commitments assumed before these agencies so as to ensure total independence of their operations.

On September 24, 2013, Telefónica entered into an agreement with the other shareholders of the Italian company TELCO whereby Telefónica subscribed and paid up capital in TELCO through a contribution of 324 million euros, receiving shares without voting rights of TELCO as consideration. As a result of this capital increase, the share capital of Telefónica with voting rights in TELCO remained unchanged, although their economic participation rose to 66%. Thus, the governance of TELCO, as well as the obligations of Telefónica to abstain from participating in or influencing the decisions that impact the industries where they both operate, remained unchanged.

On June 16, 2014, the Italian shareholders of TELCO decided to exercise their rights to request spin-off ensured by the Shareholders' Agreement of the company. This spin-off was approved by the Annual Shareholders' Meeting of TELCO held on July 9, 2014, and is subject to prior authorization by relevant authorities, including CADE and ANATEL in Brazil.

On December 22, 2014 and March 12, 2015, ANATEL authorized TELCO's spin-off, in a transaction impacting the swap transaction conducted with Vivendi S.A. ("Vivendi"). In the swap transaction agreed by and between Telefónica and Vivendi, Vivendi would exchange all its voting shares and part of its non-voting

shares held in the Company for an indirect interest held by Telefónica in Telecom Itália, subject to certain conditions, such as prohibiting Vivendi to increase its interest in the Company.

The 61st ordinary session of CADE's Trial Court, held on March 25, 2015, approved TELCO's spin-off and the swap transaction agreed upon between Telefónica and Vivendi, subject to the execution of three concentration control agreements.

On June 24, 2015, the share swap transaction between Telefónica and Vivendi was completed, through its subsidiary *Société d'Investissements et de Gestion 108 SAS* ("FrHolding108"), through which FrHolding108 transferred shares to Telefónica representing 4.5% interest in the Company in exchange for 1,110,000,000 shares representing 8.2% of the common shares of Telecom Itália, previously held by TELCO.

On July 29, 2015, after close of business on the New York Stock Exchange, Vivendi disposed of all the preferred shares of the Company, representing 4% of its share capital. On the same date, the share swap transaction between Telefónica and FrHolding108 was completed. As such, as from said date, FrHolding108 no longer holds any shareholding interest in the Company.

As a result of the above, Telefónica no longer held, directly or indirectly, any economic interest in TELCO at December 31, 2015.

d) Corporate Restructuring

The Company's Special Meeting held on May 28, 2015, approved acquisition of all the shares issued by GVTPart. and 675,571 shares of GVT, as well as the incorporation of shares of GVTPart. by the Company. As a consequence of these acts, the Company became the sole shareholder of GVTPart. and indirect controlling company of GVT, POP and Innoweb.

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After concluding the aforementioned stages, the Company's Board of Directors' meeting held on September 22, 2015 analyzed the proposal of Corporate Restructuring involving the Company, its wholly-owned subsidiary (GVTPart.) and its indirect subsidiaries (GVT and POP), in such a way that at the end of the process, the services rendered by GVT that are not classified as telecommunication services will be centralized in POP and telecommunication services will be centralized in the Company.

Considering that in the implementation of the Corporate Reorganization all the companies involved are wholly-owned subsidiaries or indirect subsidiaries of the Company, there will not be right of retirement of the Company's shareholders (on the terms of article 137 of Law No. 6404/76, as amended), since the operations provided for will not affect the shareholding structure and will not result in capital increase and issue of new shares of the Company.

ANATEL, in its Executive Board's meeting held on November 4, 2015, granted the prior authorization for the Corporate Restructuring, subject to expected conditions compatible with those imposed in other similar transactions, whose content will be published by ANATEL in the DOU. The Company will make a supplementary communication, containing further details about the terms and conditions of the Corporate Restructuring, as well as the related notice convening the Company's Special Meeting about the matter.

2) BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1) Statement of Compliance

The individual financial statements (Company) and the consolidated financial statements (Consolidated) were prepared and are presented in accordance with the accounting practices adopted in Brazil, which comprise CVM standards and CPC pronouncements, in compliance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB). All significant information in the financial statements - and solely such information - is disclosed and corresponds to that

used by management in its administration.

At the meeting held on February 15, 2016, the Executive Board authorized the issuance of these financial statements, which were ratified by the Board of Directors at a meeting held on February 19, 2016.

2.2) Basis of preparation and presentation

The Company's financial statements for the years ended December 31, 2015 and 2014 are presented in thousands of reais (unless otherwise stated) and were prepared under a going concern assumption.

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

These financial statements were prepared under various measurement bases used in accounting estimates. The accounting estimates involved in the preparation of these financial statements were based on objective and subjective factors, considering management's judgment for determining the adequate amounts to be recorded in the financial statements. Significant items subject to these estimates and assumptions include selection of useful lives and recoverability of property and equipment in operations, measurement of financial assets at fair value and under present value adjustment method, as well as non-financial assets acquired in a business combination, credit risk analysis in determining estimated impairment losses of trade accounts receivable, as well as the analysis of other risks in determining other provisions, including for contingencies. The book values of assets and liabilities recognized, which represent hedged items at fair value, which, alternatively, would have been recorded at amortized cost, are adjusted to state the variations in fair values attributable to the hedged risks.

Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the probabilistic treatment inherent to the estimate process. The Company reviews its estimates at least on an annual basis.

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Certain accounts in the tables of these notes to financial statements and the Statement of Value Added were reclassified so as to allow comparison of information for the years ended December 31, 2015 and 2014, as applicable.

To allow comparability of the consolidated financial statements for the years ended December 31, 2015 and 2014, the effects from consolidation of GVTPart. as from May 1, 2015 shall be considered.

In compliance with CVM Rule No. 565, of June 15, 2015, the Company reports, in Note 36, the pro forma consolidated income statements (not audited or not reviewed) for the years ended December 31, 2015 and 2014.

The Company declares that the consolidated financial statements are in compliance with the IFRS issued by IASB and also in accordance with the pronouncements, interpretations and guidelines issued by CPC in force as of December 31, 2015, which are the same followed by the financial statements at December 31, 2014, except for the new pronouncements, interpretations and amendments, of the following standards, amendments and interpretations published by IASB and IFRS Interpretations Committee (IFRIC), described below, which became effective for the year ended December 31, 2015:

IAS 19 Defined Benefit Plans: Employee Contributions – Amendments to IAS 19: These amendments require that an entity consider contributions of employees or third parties in accounting for defined benefit plans. These amendments require that such contributions that are linked to the service be attributed to the periods of service as negative benefit. The amendments clarify that, if the amount of the contributions does not depend on the number of years of service, the entity is authorized to recognize such contributions, as service cost reduction in the period in which the service is rendered, instead of allocating these contributions to the periods of service. Amendments become effective as from July 1, 2014 on a retrospective basis. The application of this amendments did not have any impact on the Company's consolidated financial statements.

Annual improvements - 2010-2012 cycle:

- *IFRS 2 Share Based Payments:* This amendment changed the definition of vesting relating to the purchase conditions and its implementation is effective beginning on or after July 1, 2014. The Company does not believe that these amendments may significantly impact its financial position.
- *IFRS 3 Business Combinations:* This amendment changed the subsequent accounting for contingent consideration in a business combination. Contingent consideration on acquisition of a business that is not classified as equity is subsequently measured at fair value through profit or loss, whether or not included in the scope of IFRS 9 Financial Instruments. This change is effective for new business combinations after July 1, 2014. The Company considered the application of these changes to the business combinations occurred upon acquisition of GVTPart. (Note 4).
- *IFRS 8 Operating Segments:* These amendments are related to: (i) the aggregation of operating segments, which can be combined / aggregated whether they are in accordance with the criteria of the rule, in other words, if the segments have similar economic characteristics and are similar in other qualitative aspects. If they are combined, the entity shall disclose the economic characteristics used to assess whether the segments are similar; and (ii) the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

These amendments became effective as from July 1, 2014. Considering the fact that the Company and its subsidiaries operate in a sole operating segment, this amendment did not have any significantly impact on the Company's financial statements.

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- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: The amendments to IAS 16.35 (a) and IAS 38.80 (a) clarify that a revaluation can be made as follows: i) adjust the recorded gross amount of asset to market value or, ii) determine the market value and proportionally adjust the recorded gross amount so that the resulting recorded amount is equal to the market value. IASB also clarifies that the accumulated depreciation/amortization is the difference between the recorded gross amount and the asset's book value (i.e., the recorded gross amount – accumulated depreciation/amortization = book value). The amendment to IAS 16.35 (b) and IAS 38.80 (b) clarifies that the accumulated depreciation/amortization is eliminated so that the recorded gross amount and the book value is equal to the market value. Amendments become effective as from July 1, 2014 on a retrospective basis. Considering that the revaluation of fixed or intangible assets is not allowed in Brazil, the application of the amendments to this amendment did not have any impact on the Company's financial statements.
- IAS 24 Related Party Disclosures: The amendment to this standard clarifies that a management entity of other entity that provides key personnel for provision of management services is a subject related to related party disclosures. Additionally, an entity that used a management entity shall disclose the expenses incurred with management services. Amendments become effective as from July 1, 2014 on a retrospective basis. The application of this amendment did not affect significantly the Company's related party disclosures.

Annual improvements - 2011-2013 cycle:

- IFRS 3 Business Combinations: The amendments to this standard clarify that joint arrangements (and not only joint ventures) are not included in the application of IFRS 3. The amendments are effective on or after July 1, 2014 on a prospective basis. The application of these amendments did not have any significant impact on the Company's consolidated financial statements.
- IFRS 13 Fair Value Measurement: This amendment is related to the application of the exception to financial assets portfolio, financial liabilities and other contracts. The amendment is effective as from July 1, 2014. The application of this amendments did not have a significant impact on the Company's consolidated financial statements.

- IAS 40 Investment Property: Amendment to this standard clarifies the relationship between IFRS 3 and IAS 40 for classification of property as investment property or property occupied by owner. The description of ancillary services determined in IAS 40, which provides a difference between investment property and owner of occupied property (IFRS 3) is used to determine whether the operation refers to the purchase of an asset or a business combination. This amendment entered in force as from July 1, 2014 on a prospective basis. The application of this amendment did not have any significant impact on the Company's consolidated financial statements.

On the date of preparation of these financial statements, the following IFRS amendments had been published; however, their application was not compulsory:

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Standards and Amendments to Standards

Effective as from

Annual improvements to IFRS Cycle 2012 to 2014 include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, amended

IFRS 7 Financial Instruments: Disclosures (Financial Instruments: Disclosures) amended.

January 1, 2016

IAS 19 Employee Benefits, amended (Discount rate: regional market issue)

IAS 34 Interim Financial Reporting, amended.

IAS 1 Disclosure Initiative, amended.

January 1, 2016

IFRS 10. 12 and IAS 28 Investment Entities: Applying the Consolidation Exception, amended.

January 1, 2016

IFRS 11 Accounting for Acquisitions of Interest in Joint Operations, amended.

January 1, 2016

IFRS 14 Regulatory Deferral Account, issued.

January 1, 20