

TELEFONICA BRASIL S.A.
Form 6-K
May 11, 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 May, 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

Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

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

MARCH 31, 2016

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

Independent auditor's report on interim financial information

To Shareholders, Board of Directors and Officers

Telefônica Brasil S.A.

São Paulo - SP

We have reviewed the individual and consolidated interim financial information of Telefônica Brasil S.A., ("Company"), contained in the Quarterly Information Form (Informações Trimestrais - ITR) for the three-month period ended on March 31, 2016, which comprise the balance sheet as of March 31, 2016 and the related statements of income and of comprehensive income, the changes in equity and of cash flows for the three-month period then ended, including other explanatory information.

Management is responsible for the preparation of the individual and consolidated interim financial information in accordance with Accounting Standard CPC 21 (R1) Interim Financial Reporting (Demonstração Intermediária) issued by Comitê de Pronunciamentos Contábeis - CPC and with IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of this information in conformity with the standards issued by the Brazilian Securities and

Exchange Commission (CVM) applicable to the preparation of Quarterly Information Form (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 - Revisão de Informações Intermediárias Executada pelo Auditor da Entidade and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the individual and consolidated interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the individual and consolidated interim financial information included in the Quarterly Information Form (ITR) referred to above was not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 applicable to the preparation of the Quarterly Information Form (ITR), and presented consistently with the rules issued by the Brazilian Securities and Exchange Commission (CVM).

Other matters

Statements of value added

We have also reviewed the individual and consolidated interim Value Added Statement for the three-month period ended on March 31, 2016, prepared under management's responsibility, whose presentation in the interim financial information is required by the rules issued by the Brazilian Securities and Exchange Commission (CVM) applicable to preparation of the Quarterly Information Form (ITR), and as supplementary information under IFRS, which do not require Value Added Statement presentation. This statement has been subject to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that it is not fairly presented, in all material respects, in relation to the overall accompanying interim financial information.

São Paulo, April 25, 2016.

ERNST & YOUNG

Auditores Independentes S.S.

CRC-2SP015199/O-6

Luiz Carlos Passetti

Contador CRC-1SP144343/O-3

TELEFÔNICA BRASIL S.A.**Balance Sheets****At March 31, 2016, and December 31, 2015****(In thousands of reais)**

ASSETS	Note	Company		Consolidated		LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Comp
		03/31/16	12/31/15	03/31/16	12/31/15			
Current assets		15,685,936	15,185,519	17,991,990	17,909,303	Current liabilities		15,443,599
Cash and cash equivalents	4	3,316,988	4,206,595	4,068,214	5,336,845	Personnel, social charges and benefits	14	428,810
Trade accounts receivable, net	5	6,933,976	7,000,379	8,274,198	8,285,319	Trade accounts payable	15	7,056,268
Inventories, net	6	479,541	558,264	508,853	603,631	Taxes, charges and contributions	16	1,194,959
Taxes recoverable	7.1	2,066,115	2,164,544	2,356,971	2,521,292	Dividends and interest on equity	17	2,601,770
Judicial deposits and garnishments	8	242,870	235,343	242,930	235,343	Provisions and contingencies	18	939,789
Prepaid expenses	9	1,129,960	317,325	1,179,752	356,446	Deferred revenues	19	527,187
Dividends and interest on equity	17	18,645	18,645	489	489	Loans, financing, financial lease and contingent consideration	20	920,284
Derivative transactions	33	91,398	81,306	91,398	81,306	Debentures	20	95,258
Other assets	10	1,406,443	603,118	1,269,185	488,632	Derivative transactions	33	172,145
						Other liabilities	21	1,507,129
Non-current assets		81,730,637	82,387,176	83,253,312	83,775,761	Non-current liabilities		12,678,266
Short-term investments pledged as collateral		90,598	90,863	109,464	109,864	Personnel, social charges and benefits	14	24,724
Trade accounts receivable, net	5	179,631	217,621	284,670	330,451			

Independent auditor's report on interim financial information

Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

Taxes recoverable	7.1	285,322	337,477	343,668	409,653	Trade accounts payable	15	-
Deferred taxes	7.2	-	-	792,271	711,590	Taxes, charges and contributions	16	57,402
Judicial deposits and garnishments	8	5,077,228	4,880,489	5,738,876	5,518,120	Deferred taxes	7.2	99,191
Prepaid expenses	9	26,467	28,632	28,266	30,609	Provisions and contingencies	18	5,326,734
Derivative transactions	33	250,487	417,558	250,487	417,558	Deferred revenues	19	466,253
Other assets	10	51,391	55,228	57,876	62,799	Loans, financing, financial lease and contingent consideration	20	2,923,214
Investments	11	24,204,859	24,342,692	96,960	101,161	Debentures	20	3,428,231
Property, plant and equipment, net	12	21,762,478	22,019,076	30,236,307	30,476,765	Derivative transactions	33	42,805
Intangible assets, net	13	29,802,176	29,997,540	45,314,467	45,607,191	Liabilities for post-retirement benefits plans	32	74,904
						Other liabilities	21	234,808
						Equity		69,294,708
						Capital	22	63,571,416
						Capital reserves	22	1,347,952
						Income Reserves	22	2,412,925
						Premium on acquisition of equity interest	22	(75,388)
						Other comprehensive income	22	5,644
						Additional dividend proposed	22	1,287,223
						Retained earnings	22	744,936
TOTAL ASSETS		97,416,573	97,572,695	101,245,302	101,685,064	TOTAL LIABILITIES AND EQUITY		97,416,573

TELEFÔNICA BRASIL S.A.**Income Statements****Three-month periods ended March 31, 2016 and 2015****(In thousands of reais, except net earnings per share)**

		Company		
	Note	1st quarter of 2016	1st quarter of 2015	1st quarter of 2014
Net Operating Income	23	8,358,113	8,421,281	8,421,281
Cost of services provided and goods sold	24	(4,157,251)	(4,288,962)	(4,288,962)
Gross profit		4,200,862	4,132,319	4,132,319
Operating income (expenses)		(2,724,707)	(3,248,384)	(3,248,384)
Selling expenses	24	(2,582,360)	(2,682,163)	(2,682,163)
General and administrative expenses	24	(538,651)	(421,041)	(421,041)
Other operating income	25	632,672	112,774	112,774
Other operating expenses	25	(236,368)	(257,954)	(257,954)
Operating income		1,476,155	883,935	883,935
Financial income	26	747,601	591,901	591,901
Financial expenses	26	(1,044,048)	(839,857)	(839,857)
Equity pick-up	11	256,011	204,450	204,450
Income before taxes		1,435,719	840,429	840,429
Income and social contribution taxes	27	(217,489)	(260,710)	(260,710)
Net income for the period		1,218,230	579,719	579,719
Basic and diluted earnings per common share (in R\$)	28	0.68	0.48	0.48
Basic and diluted earnings per preferred share (in R\$)	28	0.74	0.53	0.53

TELEFÔNICA BRASIL S.A.
Statements of Changes in Shareholders' Equity
Three-month periods ended March 31, 2016 and 2015
(In thousands of reais)

	Capital	Premium on acquisition of interest	Capital reserves Other capital reserves	Trea Sh
Balances as of December 31, 2014	37,798,110	(70,448)	2,799,004	(112)
Additional dividends proposed for year 2014	-	-	-	-
DIPJ (Corporate Income Tax Return) Adjustment - Tax incentives	-	-	-	-
Cancellation of treasury shares, according to EGM of March 12, 2015	-	-	(112,107)	112
Other comprehensive income	-	-	-	-
Net income for the period	-	-	-	-
Balances as of March 31, 2015	37,798,110	(70,448)	2,686,897	
Additional dividends proposed for year 2014	-	-	-	-
Expired equity instruments	-	-	-	-
DIPJ (Corporate Income Tax Return) Adjustment - Tax incentives	-	-	-	-
Capital increase - EGM of April 28, 2015	15,812,000	-	-	-
Direct costs on capital increases (net of taxes), according to EGM of April 28, 2015	-	-	(58,657)	-
Capital increase - EGM of April 30, 2015	295,285	-	-	-
Direct costs on capital increases (net of taxes), according to EGM of April 30, 2015	-	-	(3,776)	-
Capital increase - merger of shares in GVTPart – EGM of May 28, 2015	9,666,021	-	(1,188,707)	-
Dissenters' right - Acquisition of GVTPart.	-	-	-	(87)
Premium on acquisition of equity interest by TData	-	(4,940)	-	-
Other comprehensive income	-	-	-	-
Net income for the period	-	-	-	-
Income allocation:				
Legal reserve	-	-	-	-
Interim interest on equity	-	-	-	-
Interim dividends	-	-	-	-
Expansion and modernization reserve	-	-	-	-
Additional dividend proposed	-	-	-	-
Balances as of December 31, 2015	63,571,416	(75,388)	1,435,757	(87)
Expired equity instruments	-	-	-	-
DIPJ (Corporate Income Tax Return) Adjustment - Tax incentives	-	-	-	-
Other comprehensive income	-	-	-	-
Net income for the period	-	-	-	-

Interim interest on equity

Balances as of March 31, 2016

-	-	-
63,571,416	(75,388)	1,435,757
(87		

Page. 6

TELEFÔNICA BRASIL S.A.
Statements of Comprehensive Income
Three-month periods ended March 31, 2016 and 2015
(In thousands of reais)

	Company	
	1st quarter of 2016	1st quarter of 2015
Net income for the period	1,218,230	579,000
Unrealized losses on investments available for sale	(238)	(1,000)
Taxes on unrealized losses on investments available for sale	81	(1,000)
	(157)	(1,000)
Gains (losses) on derivative transactions	(23,418)	605,000
Taxes on gains (losses) on derivative transactions	7,962	(205,000)
	(15,456)	399,000
Cumulative translation adjustments (CTA) on foreign currency transactions	(4,211)	4,000
Other net comprehensive income to be reclassified to income in subsequent periods	(19,824)	403,000
Comprehensive income for the period, net of taxes	1,198,406	983,000

TELEFÔNICA BRASIL S.A.
Statements of Cash Flows
Three-month periods ended March 31, 2016 and 2015
(In thousands of *Reais*)

	Com
	1st quarter of 2016
Total cash generated from operating activities	1,312,364
Expenses (incomes) not representing changes in cash	3,037,655
Income before taxes	1,435,719
Depreciation and amortization	1,442,448
Foreign exchange gain (losses) on loans	(32,322)
Currency variations gain (losses)	84,736
Equity pick-up	(256,011)
Losses (gains) on write-off/disposal of property	(469,670)
Estimated impairment losses on accounts receivable	276,665
Provision for (reversal from) suppliers	63,441
Write-off and reversal of estimated losses from impairment and obsolescence of inventories	(10,413)
Pension plans and other post-retirement benefits	(2,031)
Provisions for tax, labor, civil and regulatory contingencies	247,439
Interest expenses	253,573
Other	4,080
Increase or decrease in operating assets and liabilities	(1,725,290)
Trade Accounts receivable	(172,272)
Inventories	89,136
Taxes recoverable	48,495
Prepaid expenses	(711,897)
Other current assets	(84,224)
Other non-current assets	4,156
Personnel, social charges and benefits	(86,297)
Trade accounts payable	(126,048)
Taxes, charges and contributions	(52,557)
Interest paid	(227,688)
Income and social contribution taxes paid	(86,344)
Other current liabilities	(113,722)
Other non-current liabilities	(206,028)
Total cash used in investment activities	(1,037,035)
Acquisition of property, plant and equipment, and intangible assets	(1,326,148)
Cash from disposal of property, plant and equipment	32

Redemption of (investment in) judicial deposits	(100,603)
Dividends and interest on equity received	389,395
Total cash generated by (used in) financing activities	(1,164,936)
Payment of loans, financing and debentures	(1,170,893)
Funding from loans and debentures	
Net from derivative agreements	6,480
Payments regarding grouping of shares	(164,000)
Payment of dividends and interest on equity	(360,000)
Increase (decrease) in cash and cash equivalents	(889,607)
Cash and cash equivalents at the beginning of the period	4,206,595
Cash and cash equivalents at the end of the period	3,316,988
Change in cash and cash equivalents in the period	(889,607)

TELEFÔNICA BRASIL S.A.
Statements of Value Added
Three-month periods ended March 31, 2016 and 2015
(In thousands of *Reais*)

	Company	
	1st quarter of 2016	1st quarter of 2015
Revenues	11,582,606	11,396,406
Sales of goods and services	11,621,783	11,549,180
Other incomes	237,488	151,888
Estimated impairment losses from trade accounts receivable	(276,665)	(304,662)
Inputs purchased from third parties	(4,689,725)	(4,425,973)
Cost of goods and products sold and services rendered	(3,155,415)	(2,395,515)
Materials, electric energy, third-party services and other expenses	(2,019,405)	(2,011,111)
Asset Loss/Recovery	485,095	(19,347)
Gross value added	6,892,881	6,970,433
Withholdings	(1,442,448)	(1,398,999)
Depreciation and amortization	(1,442,448)	(1,398,999)
Net value added produced	5,450,433	5,571,434
Value added received in transfer	1,003,612	796,351
Equity pick-up	256,011	204,450
Financial income	747,601	591,901
Total value added for distribution	6,454,045	6,367,785
Value Added Distribution	(6,454,045)	(6,367,785)
Personnel, social charges and benefits	(736,892)	(697,711)
Direct compensation	(492,171)	(498,370)
Benefits	(205,603)	(168,600)
FGTS (unemployment compensation fund)	(39,118)	(30,741)
Taxes, charges and contributions	(2,935,395)	(3,756,434)
Federal	(1,154,897)	(1,286,428)
State	(1,769,142)	(2,458,725)
Municipal	(11,356)	(11,281)
Return on third-party capital	(1,563,528)	(1,333,921)
Interest	(1,032,085)	(838,045)
Rental	(531,443)	(495,876)
Return on equity	(1,218,230)	(579,719)

Retained earnings	(1,218,230)	(579,719)
-------------------	-------------	-----------

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2016

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

1) THE COMPANY AND ITS OPERATIONS

a) Background Information

Telefônica Brasil S.A. (“Company” or “Telefônica Brasil”), is a publicly-traded corporation operating in telecommunication services and in the performance of activities that are necessary or useful in the rendering of such services, in conformity with the concessions 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 the Telefónica Group (“Group”), the telecommunications industry leader in Spain, also present in several Europe and Latin America countries.

At March 31, 2016 and December 31, 2015, Telefónica S.A. (“Telefónica”), the Group holding company based in Spain, held a total direct and indirect interest in the Company of 73.58%, including treasury shares (Note 22).

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 US Securities and Exchange Commission (“SEC”), of the United States of America, and its American Depositary Shares (“ADSs”) are classified in 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 (“STFC”) concession agreement, and Multimedia Communication Service (“SCM”) authorization, respectively.

The Company is the grantee on 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 Concession Plan (“PGO”).

The Company is also 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.

In accordance with the service concession agreement, every two years, during the agreement’s 20-year term, the Company shall pay a fee equivalent to 2% of its prior-year STFC revenues, net of applicable taxes and social contribution taxes (Note 21). The Company’s current STFC concession agreement is valid until December 31, 2025.

In accordance with the SMP authorization agreements, every two years, after the first renewal of these agreements, the Company shall pay a fee equivalent to 2% of its prior-year revenues, net of applicable taxes and social contribution taxes, related to the application of Basic and Alternative Services Plans (Note 21). These agreements can be extended only once for a term of 15 years.

In the auction for sale of the remaining radiofrequency bands of 1,800 MHz, 1,900 MHz and 2,500 MHz, held by the National Telecommunications Agency (ANATEL) on December 17, 2015, the Company was the out bidder 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 Brazilian territory, with additional 10+10 MHz band, supplementing the 20+20Mhz band acquired in the 2012 bidding. The amount payable and the use terms shall observe the rules provided in the bidding notice and as defined by ANATEL.

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2016

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

Service concessions and authorizations are granted by ANATEL, under the terms of Law No. 9472 of July 16, 1997 - General Telecommunication Law (“Lei Geral das Telecomunicações” - 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.

The information on the operation areas (regions) and due dates of the radiofrequency authorizations for SMP services is the same of Note 1b) Operations as disclosed in the financial statements for the year ended December 31, 2015.

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 3). 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.

c) Corporate Restructuring

In the meeting held on March 14, 2016, the Company's Board of Directors approved, subject to approval of the Special Shareholders' Meeting (“AGE”) to be held on April 1, 2016, the terms and conditions of the Corporate Restructuring, as described below:

The Corporate Restructuring involves the Company and its wholly-owned subsidiary, GVTPart. (holding company whose business purpose is to hold interest in other national or foreign companies, as shareholder), preceded by restructuring involving its subsidiaries; namely GVT (whose business purpose is to render land-line telecommunication services, including pay-TV services in all regions of Brazil) and POP (whose business purpose is to develop IT and Internet activities).

The corporate structure, considering only the companies involved in the Corporate Restructuring March 31, 2016 was as follows:

The Corporate Restructuring aims at standardizing the services provided by the companies involved in this process by (i) concentrating the rendering of telecommunication services on one single company, that is, the Company; and (ii) migrating to POP all services provided by GVT not related to telecommunication services.

As such, the simplification of the corporate structure and the concentration of telecommunication services on the Company will lead to a converging environment, facilitating consolidation and confluence of the offering of telecommunication services and service packages; optimizing administrative and operating costs; and standardizing the operations of the companies involved in the Corporate Restructuring.

The Corporate Restructuring was approved by ANATEL through Ruling No. 50169, of January 22, 2016, which was published in the Federal Official Gazette (“DOU”) on January 28, 2016 with the conditions provided therein.

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2016

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

The Corporate Restructuring to be submitted to the Special Shareholders' Meeting (AGE) is the merger of GVTPart. into the Company (note 36).

The Corporate Restructuring should take place on the same date and as follows: (i) GVT will be spun off and involving assets, rights and obligations related to the telecommunications activities, its net assets relating to property, rights and obligations connected to telecommunications activities will be absorbed by GVTPart., while other net assets relating to property, rights and obligations connected to activities other than telecommunications will be absorbed by POP; and (iii) the net assets of GVTPart. (after the merger of GVT's net assets, item (i)) will be merged into the Company.

After the intended Corporate Restructuring, the corporate structure considering only the companies involved in the Corporate Restructuring will be as follows:

Given that the merger of GVTPart. into the Company will not generate capital increase or change in shareholders' interest in the Company, since GVTPart. is a wholly-owned subsidiary of the Company, the replacement of shares held by the shareholders in GVTPart. with shares in the Company is not applicable. Consequently, there are no minority interests to be considered and, therefore, according to the CVM's position in similar prior cases, and on the terms of CVM Resolution No. 559/08, the provisions of article 264 of Law No. 6404/76 and its further amendments do not apply either.

In addition, in relation to the transaction that precedes the merger of GVTPart into the Company, the replacement of shares is not applicable, since GVT is a subsidiary of GVTPart. and of the Company itself, thus there are no minority shareholders.

On the terms of article 137 of Law No. 6404/76 and its further amendments, the Corporate Restructuring does not entitle Company's shareholders the right of withdrawal. Furthermore, considering that there are no minority shareholders of GVTPart., since it is a wholly-owned subsidiary of the Company, there is no question of right to withdrawal and exercise of the right to withdraw of non-controlling shareholders of GVTPart., as provided for in article 136, item iv, and article 137 of Law No. 6404/76 and its further amendments.

2) BASIS OF PREPARATION AND PRESENTATION OF THE QUARTERLY FINANCIAL STATEMENTS

2.1) Statement of Compliance

The individual (Company) and consolidated quarterly financial statements (ITRs) were prepared and are presented in accordance with the accounting practices adopted in Brazil, which comprise CVM standards and CPC (Accounting Pronouncements Committee) pronouncements, in compliance with the International Financial Accounting Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB). All significant information in the financial statements, and solely such information, are disclosed and correspond to that used by management in its administration.

The Board of Directors authorized the issuance of these ITRs at the meeting held on April 25, 2016.

2.2) Bases of Preparation and Presentation

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2016

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

The Company's quarterly financial statements for the three-month period ended March 31, 2016 are presented in thousands of *Reais* (unless otherwise stated), which is the functional currency of the Company, and were prepared under a going concern assumption.

These quarterly financial statements compares the quarters ended March 31, 2016 and 2015, except for the balance sheets, that compare the positions as of March 31, 2016 and December 31, 2015.

The quarterly financial statements were prepared pursuant to the accounting principles, practices and criteria consistent with those adopted in preparing the financial statements for the year ended December 31, 2015 (Note 3 – "Summary of Significant Accounting Practices"), and must be analyzed jointly with the referred financial statements.

As a result of the consolidation of GVTPart. (Note 3) as from May 1, 2015, the consolidated quarterly financial statements for the three-month period ended June 31, 2016 and 2015 are not comparable.

In compliance with CVM Instruction No. 565, of June 15, 2015, the Company reports, in Note 35, a *pro-forma* consolidated income statements (not audited or reviewed) for the three-month period ended March 31, 2015, and for the year ended December 31, 2015.

Some figures on the notes to the quarterly financial statements were reclassified to allow comparability between the information for the three-month periods ended March 31, 2016 and 2015, where applicable.

The quarterly financial statements were prepared pursuant to the accounting principles, practices and criteria consistent with those adopted in preparing the financial statements for the year ended December 31, 2015, as well as the new pronouncements, interpretations and amendments that had been published, as described below:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, revision: The amendments to this standard provide a guidance regarding the accounting treatment to be adopted upon the reclassification of an asset (or group of assets) from the “held for sale” category to the “distribution to shareholders” category (or conversely). This standard is applicable as from the year beginning on January 1, 2016. The Company does not have plans for asset sales or distribution to shareholders and, does not expect any significant impacts on its financial position.

IFRS 7 Financial Instruments: Disclosures, revision: The amendments to this standard provide a guidance regarding the disclosure of the accounting policies that form the measurement base (or bases) used in the preparation of the financial statements, and other accounting policies used that are relevant to allow understanding the financial statements. This standard is applicable as from the year beginning on January 1, 2016. The Company already discloses significant accounting practices in its financial statements.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations, revision: The amendments to this standard require that joint investors, which record the acquisition of equity interest in joint operations that is a business apply the relevant IFRS 3 principles applicable to business combination. The amendments further clarify that the interest previously held in joint operations is not remeasured upon acquisition of additional interest in the same joint operation, while the joint control is held. Additionally, a scope exclusion was added to IFRS 11 in order to specify that the amendments are not applicable when the parties sharing joint control, including the reporting entity, are under the common control of the main controlling party. The amendments are applicable to both, the acquisition of final interest in a joint operation and the acquisition of any additional interest in the same joint operation, and are effective prospectively as from the year beginning on January 1, 2016. The Company did not acquire interest in joint operations fitting into this standard.

IFRS 14 Regulatory Deferral Accounts, issue: This standard is optional and allows companies whose activities are subject to regulated fees to continue applying most part of its accounting policies on regulatory deferral accounts balances upon the first-time adoption of IFRS. The companies that adopt IFRS 14 must present regulatory deferral accounts separately in the balance sheet and in the other comprehensive income. This standard requires disclosures on the nature and risks associated with company’s regulated fees, and the effects of such regulation on the financial statements. This standard is applicable as from the year beginning on January 1, 2016. The Company does not expect any significant impact on its financial position, since it has already been preparing its financial statements based on the effective IFRS.

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2016

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

IAS 1 Disclosure Initiative, revision: This standard addresses changes in the overall financial statements of a company. This standard is applicable as from year beginning on or after January 1, 2016. The model for disclosure of the Company's financial information is compliant with this standard, and the Company does not expect impacts on its financial disclosures.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization, revision: The amendments clarify the depreciation and amortization methods subject to the alignment to the concept of future economic benefits expected from the use of assets over its economic useful life. This standard is applicable as from the year beginning on January 1, 2016. The Company does not expect any significant impact on its financial position.

IAS 19 Employee Benefits, revision: The amendments to this standard require that the Company disclosure information about the rates used to discount obligations with post-employment benefits, determining by reference market earnings at the end of the reference period of the obligations of high-quality institutions. For currencies for which there is no active market in such obligations of high-quality institutions, there shall be use of market earnings (at the end of the period of disclosure) of government securities denominated in that currency. The currency and term of the obligations of the companies or of government obligations must be consistent with the currency and term expected of obligations with post-employment benefits. In Brazil, there is no confirmed high-quality securities market, and that is the reason why the Company and its actuaries have been using Brazilian Government securities for many years, mainly NTN-Bs (National Treasury Notes – B series), with terms equivalent to the average duration of each plan for purposes of present value discount of the actuarial liabilities. The currency used for the payment of the benefits and for NTN-Bs valuation is the Real.

Amendments to IAS 27 Equity Method in Separate Financial Statements, revision: The amendments to this standard allow the Company to use the equity pick-up method for investments in subsidiaries, joint ventures and affiliates in its individual financial statements. This standard is applicable as from the year beginning on January 1, 2016. This amendment did not generate any impact on the individual financial statements of the Company, since the equivalent Brazilian accounting standards (CPC-35-R2) already provided the use of this method.

IAS 34 Interim Financial Reporting, revision: The amendments to this standard require that the Company disclose in its interim financial statements must include the following information: (i) declaration of policies and calculation methods compared to the most recent annual financial statements; (ii) comments about seasonality; (iii) nature and quantity of unusual items that affect assets, liabilities, equity, revenues or cash flows due to their nature, dimension or occurrence; (iv) nature and number of changes in estimates of amounts disclosed in the comparative periods; (v) issues, repurchases and refunds of securities; (vi) dividends paid (aggregated or per share), separated by common and other shares; (vii) complete information by segment; (viii) events subsequent to the current period, which have not been reflected in the interim reports; and (ix) effects from changes in the Company's corporate structure during the interim financial statements reporting period, among others. This standard is applicable as from the year beginning on January 1, 2016. The Company does not expect impact on its interim financial statements, since it already includes this information in the preparation of its quarterly financial statements.

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

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2016****(In thousands of *Reais*, unless otherwise stated)**

Standards and Amendments to the Standards	Effective as of:
<i>IFRS 9 Financial Instruments, issue of final version.</i>	January 1, 2018
<i>IFRS 10, 12 and IAS 28 Investment Entities: Applying the Consolidation Exception, review.</i>	TBD
<i>IFRS 15 Revenue from Contracts with Customers, issue.</i>	January 1, 2018
<i>IFRS 16 Leases, issue.</i>	January 1, 2019

The Company does not early adopt any pronouncement, interpretation or amendment that has been issued, whose application is not compulsory. Based on the analyses performed by the Company, the adoption of most of these standards, amendments and improvements will not significantly impact the consolidated financial statements in the period of its first-time adoption. However, IFRS 15 may impact the period and amount of revenue recognition in relation to certain revenue transactions. The Telefónica Group is currently evaluating the impact of the application of this standard. In addition, the amendments introduced by IFRS 9 will affect financial instruments and operations with financial instruments performed on or after January 1, 2018. Additionally, IFRS 16 requires that the Company inform all assets and liabilities subject to leases (except short-term leases and leases of nominal amount). Therefore, the amendments introduced by IFRS 16 may have a significant impact on the Company's financial statements.

2.3) Bases for consolidation

As of March 31, 2016 and December 31, 2015, the Company held interest in the following companies:

Investees	Type of investment	% interest		Country (Headquarters)
		At 03.31.16	At 12.31.15	
Telefônica Data S.A. ("TData")	Wholly-owned subsidiary	100.00%	100.00%	
GVT Participações S.A. ("GVTPart.") (note 3)	Wholly-owned subsidiary	100.00%	100.00%	
Aliança Atlântica Holging B.V. ("Aliança")	Jointly-controlled subsidiary	50.00%	50.00%	
Companhia AIX de Participações ("AIX")	Jointly-controlled subsidiary	50.00%	50.00%	
Companhia ACT de Participações ("ACT")	Jointly-controlled subsidiary	50.00%	50.00%	

Interests held in subsidiaries or jointly-controlled entities are measured under the equity method in the individual quarterly financial statements. In the consolidated quarterly financial statements, investments and all assets and liabilities balances, revenues and expenses arising from transactions and interest held in subsidiaries are fully eliminated. Investments in jointly-controlled entities are measured under the equity method in the consolidated quarterly financial statements.

3) ACQUISITION OF GVT PARTICIPAÇÕES S.A. ("GVTPart.")

As disclosed in the financial statements for the year ended December 31, 2015 (Note 4 – "Acquisition of GVT Participações S.A."), the Special Shareholders' Meeting held on May 28, 2015 approved the acquisition of the total shares issued by GVTPart. and of 675,571 shares of GVT, as well as the merger of GVTPart. shares into the Company. As a result of these acts, the Company became the sole shareholder of GVTPart. and an indirect controlling shareholder of GVT, POP and Innoweb.

On May 28, 2015, the AGE approved the ratification of the Stock Purchase Agreement and Other Covenants executed by the Company and Vivendi and its subsidiaries (Société d'Investissements et de Gestion 108 SAS - "FrHolding108" and Société d'Investissements et de Gestion 72 S.A.), whereby all the shares issued by GVTPart. were acquired by the Company.

This transaction was subject to obtaining the applicable corporate and regulatory approvals, including from the Administrative Council for Economic Defense (CADE) and ANATEL, further to other conditions usually applicable to this type of transaction. The transaction was approved by ANATEL under Act No. 448 of

January 22, 2015, and published in the Official Federal Gazette (“DOU”) on January 26, 2015, and by CADE at the 61st ordinary session of its Trial Court, held on March 25, 2015, published in the Official Federal Gazette (“DOU”) on March 31, 2015.

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2016****(In thousands of *Reais*, unless otherwise stated)**

Under IFRS 3 (R)/CPC 15 (R1) – Business Combinations, business acquisitions are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair value of assets transferred, of liabilities assumed at the acquisition date from the acquiree's shareholders and equity interests issued in exchange for control over the acquiree.

The acquisition price was as follows:

Gross consideration in cash (4.663 billion euros)	15,964,853
(-) Contractual Adjustments (Net Debt)	(7,060,899)
Total consideration in cash, net	8,903,954
(+) Contingent Consideration	344,217
(+) Consideration in Shares at Fair Value	8,477,314
(-) Cash Flow Hedge Gain on Transaction, net of taxes (1)	(377,373)
(-) Refund according to sections 2.2.4 and 2.2.5 of SPA	(84,598)
Total consideration, net of Cash Flow Hedge	17,263,514

(1) Derivative transactions refer to cash flow hedges to protect the amount due in Euro to Vivendi, for the acquisition of GVTPart, against exchange rate variation of the amount.

Below is a breakdown of the fair value of identifiable net assets acquired for R\$4,426,373, as well as goodwill recorded on the acquisition date.

Current assets	1,557,651	Current liabilities	5,299,662
Cash and cash equivalents	390,255	Personnel, social charges and benefits	170,989
Accounts receivable, net	947,378	Trade accounts payable	611,425
Inventories	4,641	Taxes, charges and contributions	346,569
Taxes recoverable	147,057	Loans and financing	3,968,615
Other assets	68,320	Provisions	17,866

		Other liabilities	184,198
Non-current assets	12,026,239		
Short-term investment pledged as collateral	17,871	Non-current liabilities	3,857,855
Taxes recoverable	65,798	Trade accounts payable	67,742
Deferred taxes (4)	610,873	Taxes, charges and contributions	1,342
Judicial deposits and garnishments	551,275	Loans and financing	3,088,414
Other assets	7,052	General Provisions (3)	679,294
Property and equipment, net (1)	7,970,117	Other liabilities	21,063
Intangible assets, net (2)	2,803,253		
		Fair value of assumed liabilities	9,157,517
		Fair value of identifiable net assets acquired	4,426,373
		Goodwill (5)	12,837,141
		Total consideration, net of Cash Flow Hedge	17,263,514
Fair value of assets acquired	13,583,890		

(1) This includes the allocation of appreciation of property and equipment items (R\$409,601).

(2) This includes the allocation of fair value assigned to the brand (in the amount of R\$59,000, determined through the relief-from-royalty method, amortized over 1.5 year), the customer portfolio (in the amount of R\$2,523,000, determined through the multi-period excess earnings method, amortized over the average term of 7.77 years), and the surplus value of other intangible assets (R\$20,394).

(3) This includes the allocation of fair value assigned to contingent liabilities (R\$512,648).

(4) This includes the allocation of deferred taxes on contingent liabilities (R\$174,300).

(5) This refers to goodwill recorded on the acquisition of GVTPart. based on expected synergies resulting from the business combination. This amount may be used for tax purposes.

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2016****(In thousands of *Reais*, unless otherwise stated)**

As part of the Stock Purchase Agreement and Other Covenants executed by the Company and Vivendi for the acquisition of GVT Part-issued shares, a contingent consideration was defined for the court deposits made by GVT for the monthly installments of deferred income and social contribution taxes on the amortization of goodwill arising from the corporate restructuring process completed by GVT in 2013. In September 2014, GVT filed for a cancellation of the judicial review and the return of the amounts deposited with the courts.

If GVT succeeds in receiving (being reimbursed, refunded of or netting) these funds, they will be returned to Vivendi, as long as they are obtained in a final unappeasable decision. The period for returning such amount is of up to 15 years. The fair value of the contingent consideration on the acquisition date was R\$344,217, recorded in the Company's non-current liabilities as "Loans, financing, financial lease and contingent consideration" (Note 20), which is subject to monthly monetary adjustments based on the Selic rate.

The balance of cash and cash equivalents on the acquisition date was R\$390,255 (R\$376,479, net of transaction costs).

On the date of preparation of these quarterly financial statements, the Company completed the review of the adjustments to the determination of the fair value of GVT Part.'s for identifiable assets acquired and liabilities assumed.

4) CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	03/31/16	12/31/15	03/31/16	12/31/15
Cash and Banks	137,737	201,294	148,293	233,742
Short-term investments	3,179,251	4,005,301	3,919,921	5,103,103
Total	3,316,988	4,206,595	4,068,214	5,336,845

Short-term investments basically correspond to Bank Deposit Certificates (CDBs), pegged to short-term Interbank Deposit Certificate (CDI) rate variation, and are kept at first-tier financial institutions.

5) TRADE ACCOUNTS RECEIVABLE, NET

	Company		Consolidated	
	03/31/16	12/31/15	03/31/16	12/31/15
Billed amounts	5,746,834	5,605,057	7,024,097	6,959,513
Unbilled amounts	1,580,453	1,490,470	2,394,034	2,111,746
Interconnection amounts	1,322,876	1,531,352	1,335,246	1,555,480
Amounts from related parties (Note 29)	254,000	241,233	182,476	206,957
Gross accounts receivable	8,904,163	8,868,112	10,935,853	10,833,696
Estimated impairment losses	(1,790,556)	(1,650,112)	(2,376,985)	(2,217,926)
Total	7,113,607	7,218,000	8,558,868	8,615,770
Current	6,933,976	7,000,379	8,274,198	8,285,319
Non-current	179,631	217,621	284,670	330,451

Consolidated balances of non-current trade accounts receivable include:

- R\$179,631 as of March 31, 2016 (R\$217,621 as of December 31, 2015), referring to the business model of resale of goods to legal entities, receivable within 24 months. As of March 31, 2016, the impact of the present-value adjustment was R\$50,581 (R\$59,378 as of December 31, 2015).
- R\$105,039, as of March 31, 2016, (R\$112,830 as of December 31, 2015), referring to “Soluciona TI”, traded by TData, which consists of lease of IT equipment to small and medium companies and receipt of fixed installments over the contractual term. Considering the contractual terms, this product was classified as financial lease. As of March 31, 2016, the impact of the present-value adjustment was R\$1,067 (R\$3,671 as of December 31, 2015).

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2016****(In thousands of *Reais*, unless otherwise stated)**

The aging list of trade accounts receivable, net of estimated impairment losses, is as follows:

	Company		Consolidated	
	03/31/16	12/31/15	03/31/16	12/31/15
Falling due	5,084,610	5,186,776	6,180,455	6,158,130
Overdue – 1 to 30 days	958,659	949,131	1,137,052	1,082,139
Overdue – 31 to 60 days	331,172	323,882	396,054	375,908
Overdue – 61 to 90 days	207,288	214,337	255,462	324,985
Overdue – 91 to 120 days	95,925	93,826	111,159	103,876
Overdue – over 120 days	435,953	450,048	478,686	570,732
Total	7,113,607	7,218,000	8,558,868	8,615,770

As of March 31, 2016, and December 31, 2015, no customer represented more than 10% of trade accounts receivable, net.

Changes in the estimated impairment losses of accounts receivable are as follows:

	Company	Consolidated
Balance at 12/31/14	(1,313,956)	(1,619,316)
Net supplement to estimated losses (Note 24)	(304,662)	(324,415)
Write-off due to use	126,701	125,130
Balance at 03/31/15	(1,491,917)	(1,818,601)
Net supplement to estimated losses	(712,154)	(906,260)
Write-off due to use	553,959	830,871
Business combination (Note 3)	-	(323,936)
Balance at 12/31/15	(1,650,112)	(2,217,926)
Net supplement to estimated losses (Note 24)	(276,665)	(344,390)
Write-off due to use	136,221	185,331
Balance at 03/31/16	(1,790,556)	(2,376,985)

The balances of current and non-current trade accounts receivable, relating to finance lease of "Soluciona TI" product, comprise the following effects:

	Consolidated	
	03/31/16	12/31/15
Present value of accounts receivable	569,662	574,534
Deffered financial income	1,067	3,671
Nominal amount receivable	570,729	578,205
Estimated impairment losses	(312,695)	(306,443)
Net amount receivable	258,034	271,762
Current	152,995	158,932
Non-current	105,039	112,830

As of March 31, 2016, the aging list of gross trade accounts receivable referring to "Soluciona TI" product is as follows:

	Consolidated	
	Nominal amount receivable	Present value of accounts receivable
Falling due within one year	310,945	310,945
Falling due within one year until five years	259,784	258,717
Total	570,729	569,662

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2016****(In thousands of *Reais*, unless otherwise stated)**

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

6) INVENTORIES, NET

	Company		Consolidated	
	03/31/16	12/31/15	03/31/16	12/31/15
Materials for resale (1)	458,767	550,283	491,266	594,888
Materials for consumption	54,824	48,562	56,769	53,275
Other inventories	7,815	7,809	7,815	7,809
Gross total	521,406	606,654	555,850	655,972
Estimated losses from impairment or obsolescence	(41,865)	(48,390)	(46,997)	(52,341)
Total	479,541	558,264	508,853	603,631

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

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

	Company	Consolidated
Balance at 12/31/14	(45,901)	(48,486)
Net supplement to estimated losses	(7,329)	(6,236)
Balance at 03/31/15	(53,230)	(54,722)
Supplement to estimated losses	4,840	2,381
Balance at 12/31/15	(48,390)	(52,341)
Net supplement to estimated losses	6,525	5,344
Balance at 03/31/16	(41,865)	(46,997)

Additions and reversals of estimated impairment losses and inventory obsolescence are included in cost of goods sold (Note 24).

7) DEFERRED TAXES AND TAXES RECOVERABLE

7.1) Taxes recoverable

	Company		Consolidated	
	03/31/16	12/31/15	03/31/16	12/31/15
State VAT (ICMS) (1)	1,862,823	1,866,777	2,035,697	2,063,159
Income and social contribution taxes recoverable (2)	270,749	267,238	376,976	301,714
Withheld taxes and contributions (3)	52,594	132,442	85,007	293,065
PIS and COFINS	51,541	108,758	76,946	133,925
Fistel, INSS, ISS and other taxes	113,730	126,806	126,013	139,082
Total	2,351,437	2,502,021	2,700,639	2,930,945
Current	2,066,115	2,164,544	2,356,971	2,521,292
Non-current	285,322	337,477	343,668	409,653

(1) This includes credits arising from the acquisition of property and equipment (subject to offsetting in 48 months); requests for refund of ICMS, which was paid under invoices later cancelled; for the rendering of services; tax substitution; and tax rate difference; among other.

(2) This refers to prepayments of income and social contribution taxes, which will be offset against federal taxes to be determined in the future.

(3) This refers to credits on withholding income tax (IRRF) on financial investments, interest on equity and other, which are used as deduction in operations for the period and social contribution tax withheld at source on services provided to public agencies.

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2016****(In thousands of *Reais*, unless otherwise stated)****7.2) Deferred taxes**

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

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

	Balances Statement		Comprehensive		Balances Statement		Company		Balance
	at 12/31/14	of Income	income	at 03/31/15	of Income	income	Other	at 12/31/14	
<u>Deferred tax assets</u>									
Income tax on tax losses and social contribution on negative base (1)	70,164	(53,036)	-	17,128	(17,128)	-	-		
Income and social contribution taxes on temporary differences (3)									
Provisions for judicial, labor, tax civil and regulatory contingencies	1,454,349	92,918	-	1,547,267	133,749	-	-	1,681,016	
Trade accounts payable and other provisions	436,799	71,209	-	508,008	26,993	-	-	535,002	
Customer portfolio and	311,141	-	-	311,141	-	-	-	311,141	

trademarks								
Estimated losses on impairment of accounts receivable	303,932	49,072	-	353,004	16,170	-	-	369,174
Estimated losses from modems and other P&E items	167,693	2,627	-	170,320	(4,503)	-	-	165,817
Pension plans and other post-employment benefits	156,226	3,808	-	160,034	(115,168)	-	-	44,866
Profit sharing	145,059	(53,585)	-	91,474	(2,530)	-	-	88,944
Provision for loyalty program	31,507	424	-	31,931	672	-	-	32,603
Accelerated accounting depreciation	15,375	567	-	15,942	(5,077)	-	-	10,865
Estimated losses from impairment of inventories	10,014	310	-	10,324	(960)	-	-	9,364
Income and social contribution taxes on other temporary differences	155,825	47,403	336	203,564	(35,676)	117,468	1,524	286,816
Total deferred tax assets	3,258,084	161,717	336	3,420,137	(3,458)	117,468	1,524	3,535,611
<u>Deferred tax liabilities</u>								
Merged tax credit (2)	(337,535)	-	-	(337,535)	-	-	-	(337,535)
Income and social contribution taxes on temporary differences (3)	(987,896)	(54,082)	-	(1,041,978)	(162,248)	-	-	(1,204,226)
Licenses	(987,896)	(54,082)	-	(1,041,978)	(162,248)	-	-	(1,204,226)
Effects of goodwill generated in the acquisition of Vivo Part.	(715,538)	(36,800)	-	(752,338)	(57,262)	-	-	(809,600)
Goodwill from Vivo Part.	(689,077)	(50,982)	-	(740,059)	(152,944)	-	-	(893,003)
Technological Innovation Law	(256,454)	13,742	-	(242,712)	49,566	-	-	(193,146)
Income and social contribution	(230,880)	4,066	(205,881)	(432,695)	111,635	66,948	-	(254,112)

taxes on other
temporary
differences

**Total deferred
tax liabilities**

(3,217,380) (124,056) (205,881) (3,547,317) (211,253) 66,948 - (3,691,62

**Total
non-current
assets**

(liabilities), net

40,704 37,661 (205,545) (127,180) (214,711) 184,416 1,524 (155,95

**Deferred tax
assets**

(liabilities), net

**Non-current
deferred tax
assets, net**

40,704 -

**Non-current
deferred tax
liabilities, net**

- (127,180) (155,95

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2016****(In thousands of *Reais*, unless otherwise stated)**

	Balances Statement		Comprehensive	Balances Statement		Comprehensive	Consolidated	Business
	at 12/31/14	of Income	income	at 03/31/15	of Income	income	combination	(4) Ot
<u>Deferred tax assets</u>								
Income tax on tax losses and social contribution on negative base (1)	93,546	(76,418)	-	17,128	9,391	-	-	-
Income and social contribution taxes on temporary differences (3)								
Provisions for judicial, labor, tax civil and regulatory contingencies	1,459,838	93,042	-	1,552,880	151,617	-	208,321	
Trade accounts payable and other provisions	501,957	78,526	-	580,483	56,200	-	50,441	
Estimated losses on impairment of accounts receivable	315,072	51,875	-	366,947	(30,761)	-	110,832	
Customer portfolio and trademarks	311,141	-	-	311,141	87,051	-	-	
Estimated losses from modems and other P&E items	169,706	2,789	-	172,495	(2,211)	-	120,346	
Pension plans and other post-employment	156,225	3,809	-	160,034	(115,047)	-	-	

benefits							
Profit sharing	145,829	(54,060)	-	91,769	(8,441)	-	22,870
Accelerated accounting depreciation	15,375	567	-	15,942	(5,077)	-	-
Estimated losses from impairment of inventories	10,893	(62)	-	10,831	(124)	-	-
Provision for loyalty program	31,507	424	-	31,931	672	-	-
Income and social contribution taxes on other temporary differences	155,515	46,763	336	202,614	(263,903)	117,468	127,690
Total deferred tax assets	3,366,604	147,255	336	3,514,195	(120,633)	117,468	640,500
<u>Deferred tax liabilities</u>							
Merged tax credit (2)	(337,535)	-	-	(337,535)	-	-	-
Income and social contribution taxes on temporary differences (3)							
Licenses	(987,896)	(54,082)	-	(1,041,978)	(162,248)	-	-
Effects of goodwill generated in the acquisition of Vivo Part.	(715,538)	(50,982)	-	(766,520)	(43,080)	-	-
Goodwill from Vivo Part.	(689,077)	(36,800)	-	(725,877)	(167,126)	-	-
Technological Innovation Law	(256,454)	13,742	-	(242,712)	49,566	-	-
Negative goodwill from merger of shares	-	-	-	-	-	-	(22,838)
Income and social contribution taxes on other temporary differences	(235,287)	5,172	(205,881)	(435,996)	385,509	69,371	-
Total deferred tax liabilities	(3,221,787)	(122,950)	(205,881)	(3,550,618)	62,621	69,371	(22,838)
Total non-current assets	144,817	24,305	(205,545)	(36,423)	(58,012)	186,839	617,662

(liabilities), net**Deferred tax****assets****(liabilities), net**

Non-current deferred tax assets, net	144,817	90,757
Non-current deferred tax liabilities, net	-	(127,180)

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

(2) This refers to tax benefits arising from corporate restructuring of goodwill for expected future profitability, which tax use follows the limit set forth in tax legislation.

(3) Amounts will be realized upon payment of provisions, effective impairment losses of trade accounts receivable, or realization of inventories, as well as upon reversal of other provisions.

(4) These refer to deferred taxes (IR and CS) arising from business combinations, R\$610,873 being of GVTPart. (Note 3) and R\$6,789 of TGLLog (Note 11a).

As of March 31, 2016, the amount of R\$3,480 (R\$481,203 as of December 31, 2015) in deferred tax credits (income tax on tax losses and social contribution on negative base) was not recognized for direct and indirect subsidiaries (Innoweb and GVTPart.), as it is not probable that future taxable income will be available for these entities to benefit from such tax credits.

The table below presents deferred income and social contribution taxes for items charged or credited directly in equity on March 31, 2016 and 2015.

	Company		Consolidated	
	03/31/16	03/31/15	03/31/16	03/31/15
Unrealized losses from available for sale investments	81	336	81	336
Gains (losses) on derivative transactions	7,962	(205,881)	7,962	(205,881)

Total	8,043	(205,545)	8,043	(205,545)
--------------	--------------	------------------	--------------	------------------

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2016****(In thousands of *Reais*, unless otherwise stated)****8) JUDICIAL DEPOSITS AND GARNISHMENTS**

In some situations, in connection with a legal requirement or presentation of guarantees, judicial deposits are made to secure the continuance of the claims under discussion. These judicial deposits may be required for claims whose likelihood of loss was analyzed by the Company and its subsidiaries, grounded on the opinion of their legal advisors, as probable, possible or remote loss.

	Company		Consolidated	
	03/31/16	12/31/15	03/31/16	12/31/15
Judicial deposits				
Tax	3,060,975	2,900,671	3,552,588	3,374,764
Labor	1,046,766	1,062,118	1,118,720	1,128,935
Civil and regulatory	1,084,812	1,030,130	1,168,940	1,114,770
Total	5,192,553	4,992,919	5,840,248	5,618,469
Garnishments	127,545	122,913	141,558	134,994
Total	5,320,098	5,115,832	5,981,806	5,753,463
Current	242,870	235,343	242,930	235,343
Non-current	5,077,228	4,880,489	5,738,876	5,518,120

On March 31, 2016, the Company and its subsidiaries had a number of tax-related judicial deposits in the consolidated amount of R\$3,552,588 (R\$3,374,764 on December 31, 2015). In Note 18, we provide further details on issues arising from the main judicial deposits.

Below is a brief description of the main tax-related judicial deposits:

- Contribution tax on gross revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS)

The Company and TData are involved in disputes related to: (i) claim filed for credits arising from overpayment of tax, not recognized by tax authorities; (ii) tax debt arising from underpayment due to differences in ancillary statements (Federal Tax Debt and Credit Return – DCTF); and (iii) disputes referring to changes in rates and increase in tax bases introduced by Law No. 9718/98.

At March 31, 2016, the consolidated balance of judicial deposits amounted to R\$35,864 (R\$35,272 at December 31, 2015).

- Social Contribution Tax for Intervention in the Economic Order (CIDE)

The Company is involved in legal disputes for the exemption of CIDE levied on offshore remittances of funds arising from agreements for the transfer of technology, brand and software licensing etc.

At March 31, 2016, the consolidated balance of judicial deposits amounted to R\$167,638 (R\$164,482 on December 31, 2015).

- Telecommunications Inspection Fund (FISTEL)

ANATEL collects the Installation Inspection Fee (TFI) on the extension of licenses granted and on radio base stations, mobile stations and radio links. Such collection results from the understanding of ANATEL that said extension would be a triggering event of TFI, and that mobile stations, even if owned by third parties, are also subject to TFI. The Company and TData are challenging the aforesaid fee in court.

At March 31, 2016, the consolidated balance of judicial deposits amounted to R\$1,029,357 (R\$1,008,771 at December 31, 2015).

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2016

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

- Withholding Income Tax (IRRF)

The Company is involved in disputes related to: (i) exemption of IRRF payment on offshore remittances for out-coming traffic; (ii) exemption of IRRF payment on interest on equity; and (iii) IRRF levied on earnings from rent and royalties, wage labor and fixed-income investments.

At March 31, 2016, the consolidated balance of judicial deposits amounted to R\$69,984 (R\$67,996 at December 31, 2015).

- Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Income (CSLL)

The Company is involved in disputes related to: (i) debts stemming from offsetting of IRPJ overpayments not recognized by the Brazilian IRS; (ii) requirement of IRPJ estimates and lack of payment of debts in the Integrated System of Economic and Tax Information (SIEF); and (iii) underpaid IRPJ amounts.

GVTPart. is involved in a dispute relating to the right to monthly amortize goodwill arising from the acquisition of GVTPart. by Vivendi on deducted IRPJ and CSLL amounts (Note 3).

At March 31, 2016, the consolidated balance of judicial deposits amounted to R\$416,912 (R\$410,412 at December 31, 2015).

- Contribution to Empresa Brasil de Comunicação (EBC)

On behalf of its members, Sinditelebrasil (Union of Telephony, and Mobile and Personal Services) is challenging in court payment of the Contribution to Foster Public Radio Broadcasting to EBC, introduced by Law No. 11652/2008. The Company and its subsidiaries, as union members, made court deposits referring to that contribution.

At March 31, 2016, the consolidated balance of judicial deposits amounted to R\$976,292 (R\$858,630 at December 31, 2015).

- Social Security, Work Accident Insurance (SAT) and Funds to Third Parties (INSS)

The Company is involved in disputes related to: (i) SAT and funds to third parties (National Institute of Colonization and Agrarian Reform - INCRA and Brazilian Micro and Small Business Support Service - SEBRAE); (ii) joint responsibility for contract labor; (iii) difference in SAT rate (from 1% to 3%); and (iv) premiums.

GVTPart is involved in disputes relating to the payment of social security contributions (employers' contributions), SAT and funds to third parties on the following events: maternity leave, legally ensured 1/3 vacation pay bonus, and first 15 days' leave due to illness or accident.

At March 31, 2016, the consolidated balance of judicial deposits amounted to R\$121,762 (R\$118,425 at December 31, 2015).

- Tax on Net Income (ILL)

The Company is discussing this matter in court in order to represent its right to offset amounts unduly paid for ILL purposes against future IRPJ payments.

On December 19, 2013, the Company settled the debt under discussion by including it in the Federal Tax Recovery Program (REFIS), using the judicial deposit connected thereto. The Company is now awaiting conversion into income by the Federal Government.

At March 31, 2016, the consolidated balance of judicial deposits amounted to R\$59,417 (R\$58,446 at December 31, 2015).

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2016

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

- Universal Telecommunication Services Fund (FUST)

The Company and TData filed an injunction in order to represent its right not to include expenses with interconnection and industrial use of dedicated line in FUST tax base, according to Abridgment No. 7, of December 15, 2005, as it does not comply with the provisions contained in the sole paragraph of article 6 of Law No. 9998/00.

At March 31, 2016, the consolidated balance of judicial deposits amounted to R\$433,891 (R\$425,737 at December 31, 2015).

- State Value-Added Tax (ICMS)

The Company is involved in disputes related to: (i) ICMS stated but not paid; (ii) ICMS not levied on communication in default; (iii) fine for late voluntary payment of ICMS; (iv) ICMS supposedly levied on access, adhesion, enabling, availability and use of services, as well as supplementary services and additional facilities; (v) right to credit from the acquisition of goods for fixed assets and electric energy; (vi) activation cards for pre-paid services; (vii) and disallowance of ICMS credit referring to agreement 39.

GVTPart is involved in disputes to acquire the right to consign the payment of ICMS amounts on part of pay-TV services, as well as on prepaid telephone services.

At March 31, 2016, the consolidated balance of judicial deposits amounted to R\$172,228 (R\$161,815 at December 31, 2015).

- Other taxes, charges and contributions

The Company is involved in disputes related to: (i) Service Tax (ISS) on non-core services; (ii) Municipal Real Estate Tax (IPTU) not subject to exemption; (iii) municipal inspection, operation and publicity charges; (iv) land use fee; (v) social security contributions related to supposed failure to withhold 11% on several invoices, bills and receipts of service providers engaged for workforce assignment; and (vi) Public Price for Numbering Resource Management (PPNUM) by ANATEL.

At March 31, 2016, the consolidated balance of judicial deposits amounted to R\$69,243 (R\$64,778 at December 31, 2015).

9) PREPAID EXPENSES

	Company		Consolidated	
	03/31/16	12/31/15	03/31/16	12/31/15
Fistel Fee (1)	802,904	-	804,101	-
Advertising and publicity	192,490	228,672	192,490	228,672
Insurance	18,326	24,035	22,593	28,367
Rent	31,054	43,022	31,054	43,022
Financial charges	5,510	11,120	5,510	11,120
Software maintenance, taxes and other	106,143	39,108	152,270	75,874
Total	1,156,427	345,957	1,208,018	387,055
Current	1,129,960	317,325	1,179,752	356,446
Non-current	26,467	28,632	28,266	30,609

(1) This refers to the Inspection and Operation charges based on the year 2015 and paid in March 2016, which will be amortized to income until the end of the period.

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2016****(In thousands of *Reais*, unless otherwise stated)****10) OTHER ASSETS**

	Company		Consolidated	
	03/31/16	12/31/15	03/31/16	12/31/15
Advances to employees and suppliers	152,249	72,635	119,484	81,615
Related-party receivables (Note 29)	1,097,424	288,702	993,934	162,308
Receivables from suppliers	122,625	118,153	126,297	120,091
Subsidy on handset sales	26,642	42,896	26,642	42,896
Surplus from post-employment benefit plans (Note 32)	8,710	8,391	9,057	8,724
Vivendi repayment clauses 2.2.4 and 2.2.5 of SPA (Note 3)	11,487	84,598	11,487	84,598
Other amounts receivable	38,697	42,971	40,160	51,199
Total	1,457,834	658,346	1,327,061	551,431
Current	1,406,443	603,118	1,269,185	488,632
Non-current	51,391	55,228	57,876	62,799

11) INVESTMENTSa) Information on Investees

The Company holds interest in wholly-owned and jointly-controlled subsidiaries, as follows:

TData: Wholly-owned subsidiary of the Company with headquarters in Brazil, this entity is engaged in the rendering, operation of value added services (SVAs) in telecommunications and related activities; managing the provision of technical assistance and maintenance services related to telecommunications equipment and network, consulting services regarding telecommunications solutions and related activities,

and designing, implementing and installing telecommunication-related projects; and selling and leasing telecommunications equipment, products and services, among others. On October 28, 2015, TData acquired a controlling interest in Telefônica Transportes e Logística Ltda (“TGLog”) for R\$15,811.

GVTPart.: A wholly-owned subsidiary of the Company. Controlling shareholder of GVT and headquartered in Brazil, the business purpose of GVTPart. is to hold interest in other domestic or foreign companies as a partner, shareholder or member. GVT provides land-line telephone, data, multimedia communication and pay-TV services in the entire Brazilian territory.

Aliança: A jointly-controlled subsidiary with 50% interest held by the Company, headquartered in Amsterdam, Holland, this entity is engaged in the acquisition and management of subsidiaries, and holding interest in companies of the telecommunications industry

AIX: A jointly-controlled subsidiary headquartered in Brazil, with 50% interest held by the Company, this entity is engaged in holding interest in Refibra Consortium, and in performing activities related to the direct and indirect operation of activities related to the construction, completion and operation of underground networks for optical fiber ducts.

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

Below is a summary of significant financial data on the Company's investees:

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2016

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

	At 03/31/16					At 12/31/15				
	Wholly-owned subsidiaries		Jointly-controlled subsidiaries			Wholly-owned subsidiaries		Jointly-controlled subsidiaries		
	TData	GVTPart.	Cia ACT	Cia AIX	Aliança	TData	GVTPart.	Cia ACT	Cia AIX	Aliança
Equity interest	100.00%	100.00%	50.00%	50.00%	50.00%	100.00%	100.00%	50.00%	50.00%	50.00%
Summary of balance sheets:										
Current assets	1,173,539	1,793,645	9	19,133	171,271	1,411,043	1,910,323	9	19,133	171,271
Non-current assets	383,245	9,349,829	-	11,620	-	409,595	9,329,733	-	11,620	-
Total assets	1,556,784	11,143,474	9	30,753	171,271	1,820,638	11,240,056	9	30,753	171,271
Current liabilities	642,547	1,837,460	3	4,799	105	707,352	1,924,230	1	4,799	105
Non-current liabilities	56,164	1,499,329	-	5,248	-	56,981	1,641,382	-	5,248	-
Equity	858,073	7,806,685	6	20,706	171,166	1,056,305	7,674,444	8	20,706	171,166
Total liabilities and equity	1,556,784	11,143,474	9	30,753	171,271	1,820,638	11,240,056	9	30,753	171,271
Investment Book value	858,073	7,806,685	3	10,353	85,583	1,056,305	7,674,444	4	10,353	85,583

	At 03/31/16					At 03/31/15				
	Wholly-owned subsidiaries		Jointly-controlled subsidiaries			Wholly-owned subsidiary		Jointly-controlled subsidiaries		
	TData	GVTPart.	Cia ACT	Cia AIX	Aliança	TData	GVTPart.	Cia ACT	Cia AIX	Aliança
Summary of Income Statements:										
Net operating income	618,216	1,531,692	15	9,653	-	600,324	15	9,653	-	-
Operating costs and expenses	(347,625)	(1,300,347)	(17)	(9,423)	(32)	(320,625)	(15)	(9,309)	(32)	(32)
Financial income (expenses), net	20,428	(41,146)	-	385	22	30,104	-	255	-	22
Income and social contribution taxes	(99,856)	(57,958)	-	(107)	-	(105,585)	-	(129)	-	-
Net income (loss) for the year	191,163	132,241	(2)	508	(10)	204,218	-	470	-	(10)
Book value of net income (loss) for the year, recognized as equity pickup	191,163	132,241	(1)	254	(5)	204,218	-	235	-	(5)

b) Changes in investments

	Balances		Other	Balances				Dividends	
	at	Equity	comprehensive	at	Additions	Capital	Equity	interest	
	12/31/14	pick-up	income	03/31/15		Increase	pick-up	on equity	
Equity Investments	1,229,827	204,450	4,787	1,439,064	1,752,724	5,827,064	756,140	(950,026)	
<u>Wholly-owned</u>									
<u>subsidiary</u>	1,153,151	204,218	-	1,357,369	1,752,724	5,827,064	754,336	(949,537)	
TData	1,153,151	204,218	-	1,357,369	-	-	653,306	(949,537)	
GVTPart.	-	-	-	-	1,752,724	5,827,064	101,030	-	
<u>Jointly-controlled</u>									
<u>subsidiaries</u>	76,676	232	4,787	81,695	-	-	1,804	(489)	
Aliança	68,129	(3)	4,787	72,913	-	-	(6)	-	
AIX	8,542	235	-	8,777	-	-	1,811	(489)	
ACT	5	-	-	5	-	-	(1)	-	
Goodwill (1)	212,058	-	-	212,058	12,837,141	-	-	-	
Value added from net assets acquired allocated to Company	-	-	-	-	2,673,647	-	(212,064)	-	
<u>Other investments</u>	3,129	-	(989)	2,140	-	-	-	-	
Other investments (2)	3,129	-	(989)	2,140	-	-	-	-	
Total investments in Company	1,445,014	204,450	3,798	1,653,262	17,263,512	5,827,064	544,076	(950,026)	
Aliança	68,129	(3)	4,787	72,913	-	-	(6)	-	
AIX	8,542	235	-	8,777	-	-	1,811	(489)	
ACT	5	-	-	5	-	-	(1)	-	
Other investments (2)	3,129	-	(989)	2,140	-	-	-	-	
Total consolidated investments	79,805	232	3,798	83,835	-	-	1,804	(489)	

(1) Goodwill: (i) R\$212,058 from partial spin-off of "Spanish and Figueira", which was reversed to the Company upon merger with Telefônica Data Brasil Holding S.A. (TDBH) in 2006; and (ii) R\$12,837,141 originated from the acquisition of GVTPart. (Note 3).

(2) Other investments (tax incentives and interest held in companies) are measured at fair value.

Page. 26

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2016

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

12) PROPERTY, PLANT AND EQUIPMENT, NET

a) Breakdown, Changes and Depreciation Rates

	Company							Assets and facilities under construction
	Switching equipment	Transmission equipment and media	Terminal equipment / modems	Infrastructure	Land	Other P&E assets	Estimated losses (1)	
<u>Annual depreciation rate (%)</u>	10.00 to 14.29	5.00 to 14.29	10.00 to 66.67	2.50 to 66.67	-	10.00 to 25.00	-	
<u>Balances and changes:</u>								
Balance at 12/31/14	2,541,676	10,208,577	1,610,687	3,485,191	314,350	671,304	(156,592)	1,706,530
Additions	2,528	44,188	28,615	13,521	-	17,938	(2,916)	957,166
Write-offs, net	(824)	(9,849)	(46)	(254)	(12)	(911)	1,156	(6,058)
Net transfers	314,644	729,166	174,280	112,039	(1,386)	29,605	-	(1,362,330)
Depreciation (Note 24)	(120,088)	(346,738)	(231,065)	(141,493)	-	(53,993)	-	-
Balance at 03/31/15	2,737,936	10,625,344	1,582,471	3,469,004	312,952	663,943	(158,352)	1,295,310
Additions	4,296	134,497	82,073	34,437	215	172,980	2,916	3,871,977
Write-offs, net	(3,058)	(14,851)	(2,783)	(1,958)	(62)	(871)	159	(13,866)
Net transfers	434,764	2,073,458	563,407	255,261	-	48,467	-	(3,381,651)
Depreciation	(377,897)	(1,138,419)	(694,375)	(385,212)	-	(173,434)	-	-
Balance at 12/31/15	2,796,041	11,680,029	1,530,793	3,371,532	313,105	711,085	(155,277)	1,771,760
Additions	1,364	18,503	19,535	9,877	-	39,406	(147)	748,120
Write-offs, net (3)	(6)	(3,280)	(31)	(97,989)	-	(12)	-	(4,913)

Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

Net transfers	141,633	522,809	189,209	66,010	-	8,403	-	(987,883)
Depreciation (Note 24)	(126,917)	(396,449)	(223,445)	(120,308)	-	(60,095)	-	
Balance at 03/31/16	2,812,115	11,821,612	1,516,061	3,229,122	313,105	698,787	(155,424)	1,527,100

At 03/31/16								
Cost	17,773,032	40,345,044	11,727,268	13,742,342	313,105	3,634,024	(155,424)	1,527,100
Accumulated depreciation	(14,960,917)	(28,523,432)	(10,211,207)	(10,513,220)	-	(2,935,237)	-	
Total	2,812,115	11,821,612	1,516,061	3,229,122	313,105	698,787	(155,424)	1,527,100

At 12/31/15								
Cost	17,688,862	39,825,516	11,530,512	13,870,397	313,105	3,591,962	(155,277)	1,771,760
Accumulated depreciation	(14,892,821)	(28,145,487)	(9,999,719)	(10,498,865)	-	(2,880,877)	-	
Total	2,796,041	11,680,029	1,530,793	3,371,532	313,105	711,085	(155,277)	1,771,760

Consolidated

	Switching equipment	Transmission equipment and media	Terminal equipment / modems	Infrastructure	Land	Other P&E assets	Estimated losses (1)	Assets and facilities under construction
Annual depreciation rate (%)	8.33 to 20.00	2.50 to 25.00	10.00 to 66.67	2.50 to 66.67	-	10.00 to 66.67	-	

Balances and changes:

Balance at 12/31/14	2,541,917	10,208,762	1,628,337	3,486,935	314,350	715,553	(156,728)	1,714,730
Additions	2,528	44,188	29,734	13,521	-	22,364	(2,916)	954,280
Write-offs, net	(824)	(9,849)	(46)	(254)	(12)	(911)	1,151	(6,359)
Net transfers	314,644	729,166	174,280	112,039	(1,386)	29,605	-	(1,362,330)
Depreciation (Note 24)	(120,106)	(346,751)	(233,122)	(141,625)	-	(57,455)	-	
Balance at 03/31/15	2,738,159	10,625,516	1,599,183	3,470,616	312,952	709,156	(158,493)	1,300,330
Additions	185,509	841,677	379,516	50,607	215	227,785	(9,195)	3,893,830
Write-offs, net	(3,638)	(7,697)	(13,786)	(4,258)	(62)	(11,639)	205	(16,786)
Net transfers	577,204	2,013,299	579,305	126,882	-	154,764	-	(3,445,923)
Depreciation	(510,833)	(1,474,108)	(951,250)	(409,643)	-	(265,975)	-	
Business combination (2)	972,558	4,978,317	1,553,141	421,747	2,600	252,361	(326,666)	119,270
Balance at 12/31/15	3,958,959	16,977,004	3,146,109	3,655,951	315,705	1,066,452	(494,149)	1,850,730
Additions	24,116	283,038	134,503	11,817	-	51,721	(147)	704,750
	(1,639)	(5,438)	(379)	(96,809)	-	-	6,813	(3,585)

Write-offs, net (3)									
Net transfers	101,801	562,864	181,663	64,787	-	10,396	-	(987,896)	
Depreciation (Note 24)	(182,572)	(546,864)	(353,711)	(127,617)	-	(72,074)	-		
Balance at 03/31/16	3,900,665	17,270,604	3,108,185	3,508,129	315,705	1,056,495	(487,483)	1,564,000	
At 03.31.16									
Cost	19,715,411	48,255,562	14,823,941	14,152,036	315,705	4,540,213	(487,483)	1,564,000	
Depreciation accumulated	(15,814,746)	(30,984,958)	(11,715,756)	(10,643,907)	-	(3,483,718)	-		
Total	3,900,665	17,270,604	3,108,185	3,508,129	315,705	1,056,495	(487,483)	1,564,000	
At 12.31.15									
Cost	19,724,438	47,459,383	14,522,080	14,278,557	315,705	4,487,749	(494,149)	1,850,730	
Depreciation accumulated	(15,765,479)	(30,482,379)	(11,375,971)	(10,622,606)	-	(3,421,297)	-		
Total	3,958,959	16,977,004	3,146,109	3,655,951	315,705	1,066,452	(494,149)	1,850,730	

(1) The Company and its subsidiaries recognized estimated loss for potential obsolescence of materials used in property and equipment maintenance, based on levels of historical use and expected future use.

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2016

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

(2) These refer to amounts arising from business combinations, of which R\$7,970,117 is of GVTPart. (Note 3) and R\$3,217 of TGLog (Note 11a).

(3) Net write-offs regarding “Infrastructure and Assets and Facilities under Construction” for the three-month period ended March 31, 2016 include the amount of R\$99,210 regarding the disposal of 1,655 towers owned by the Company to Towerco Latam do Brasil Ltda., a direct controlled subsidiary of Telefónica.

b) Property and equipment items given in guarantee

At March 31, 2016, consolidated property and equipment amounts given in guarantee for lawsuits amounted to R\$164,404 (R\$163,802 at December 31, 2015).

c) Capitalization of borrowing costs

At March 31, 2016 and December 31, 2015, the Company and its subsidiaries did not capitalize borrowing costs, as there were no qualifiable assets.

d) Reversible Assets

The STFC service concession arrangement establishes that all assets owned by the Company and that are essential for the provision of the services described in the referred arrangement are considered reversible assets and are deemed to be part of the service concession assets. These assets will be automatically returned to ANATEL upon termination of the service concession arrangement, according to the regulation in force. At March 31, 2016, estimated residual value of reversible assets was R\$7,853,278 (R\$7,855,868 at December 31, 2015), which comprised switching and transmission equipment and public use terminals,

external network equipment, energy equipment and system and operation support equipment.

e) Financial Lease

Below are the amounts related to financial lease arrangements in which the Company is a lessee, segregated by type of property and equipment item.

	Annual depreciation rates (%)	P&E Cost	03/31/16	Consolidated		12/31/15	Net balance
			Accumulated depreciation	Net balance	P&E Cost	Accumulated depreciation	
Transmission equipment and media	5.00% to 8.33%	252,232	(28,426)	223,806	252,232	(25,033)	227,199
Infrastructure	5.00%	6,674	(2,357)	4,317	6,674	(2,291)	4,383
Other assets	20.00%	116,945	(84,737)	32,208	116,945	(82,804)	34,141
Total		375,851	(115,520)	260,331	375,851	(110,128)	265,723

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2016

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

13) INTANGIBLE ASSETS, NET

a) Breakdown, Changes and Amortization Rates

	Company							To
	Indefinite useful life	Finite useful life			Other intangible assets	Software under development		
	Goodwill	Software	Customer portfolio	Trademarks	Licenses			
<u>Annual amortization rate (%)</u>	-	20.00	11.76	5.13	3.60 to 6.67	20.00	-	
<u>Balances and changes:</u>								
Balance at 12/31/14	10,013,222	2,010,057	1,109,876	1,326,246	16,546,598	113	66,675	31,072,7
Additions	-	121,638	-	-	-	29	81,397	203,0
Write-offs, net	-	(3)	-	-	-	-	-	(
Net transfers	-	115,511	-	-	-	-	(111,529)	3,9
Amortization (Note 24)	-	(193,756)	(62,141)	(21,052)	(228,630)	(43)	-	(505,62
Balance at 03/31/15	10,013,222	2,053,447	1,047,735	1,305,194	16,317,968	99	36,543	30,774,2
Additions	-	464,215	-	-	116	9,973	269,698	744,0
Write-offs, net	-	(28)	-	-	-	-	-	(2
Net transfers	-	239,172	-	-	-	(3,108)	(229,770)	6,2
Amortization	-	(593,871)	(186,425)	(61,633)	(683,002)	(2,005)	-	(1,526,93
Balance at 12/31/15	10,013,222	2,162,935	861,310	1,243,561	15,635,082	4,959	76,471	29,997,5
Additions	-	48,228	-	-	-	3,053	211,956	263,2
Write-offs, net	-	-	-	-	-	-	-	-

Edgar Filing: TELEFONICA BRASIL S.A. - Form 6-K

Net transfers	-	245,617	-	-	-	-	(185,798)	59,8
Amortization (Note 24)	-	(206,421)	(62,142)	(21,051)	(228,573)	(233)	-	(518,42
Balance at 03/31/16	10,013,222	2,250,359	799,168	1,222,510	15,406,509	7,779	102,629	29,802,1
At 03/31/16								
Cost	10,013,222	12,449,767	1,990,278	1,601,433	20,052,123	161,950	102,629	46,371,4
Accumulated amortization	-	(10,199,408)	(1,191,110)	(378,923)	(4,645,614)	(154,171)	-	(16,569,22
Total	10,013,222	2,250,359	799,168	1,222,510	15,406,509	7,779	102,629	29,802,1
At 12/31/15								
Cost	10,013,222	12,155,929	1,990,278	1,601,433	20,052,123	158,897	76,471	46,048,3
Accumulated amortization	-	(9,992,994)	(1,128,968)	(357,872)	(4,417,041)	(153,938)	-	(16,050,81
Total	10,013,222	2,162,935	861,310	1,243,561	15,635,082	4,959	76,471	29,997,5

Page. 29

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2016

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

	Consolidated							
	Indefinite useful life	Finite useful life					Other intangible assets	Software under development
	Goodwill	Software	Customer portfolio	Trademarks	Licenses			
<u>Annual amortization rate (%)</u>	-	20.00	11.76 to 12.85	5.13 to 66.67	3.60 to 6.67	5.00 to 20.00	-	
<u>Balances and changes:</u>								
Balance at 12/31/14	10,225,280	2,012,636	1,109,876	1,326,246	16,546,598	113	66,675	31,287,4
Additions	-	121,646	-	-	-	29	81,397	203,0
Write-offs, net	-	(3)	-	-	-	-	-	(
Net transfers	-	115,511	-	-	-	-	(111,529)	3,9
Amortization (Note 24)	-	(194,202)	(62,141)	(21,052)	(228,630)	(43)	-	(506,06
Balance at 03/31/15	10,225,280	2,055,588	1,047,735	1,305,194	16,317,968	99	36,543	30,988,4
Additions	-	529,884	-	-	116	18,947	269,698	818,6
Write-offs, net	-	(49)	-	-	-	-	-	(4
Net transfers	-	230,635	-	-	-	(6,396)	(229,770)	(5,53
Amortization	-	(640,351)	(416,234)	(87,855)	(683,002)	(8,199)	-	(1,835,64
Business combination (1)	12,837,141	210,016	2,523,000	59,000	-	12,203	-	15,641,3
Balance at 12/31/15	23,062,421	2,385,723	3,154,501	1,276,339	15,635,082	16,654	76,471	45,607,1
Additions	-	66,930	-	-	-	3,053	211,956	281,9
Write-offs, net	-	-	-	-	-	(14)	-	(1
Net transfers	-	244,752	-	-	-	-	(185,798)	58,9
Amortization (Note 24)	-	(225,401)	(148,321)	(30,885)	(228,573)	(423)	-	(633,60

Balance at									
03/31/16	23,062,421	2,472,004	3,006,180	1,245,454	15,406,509	19,270	102,629	45,314,4	
At 03/31/16									
Cost	23,062,421	13,131,077	4,513,278	1,660,433	20,052,123	184,216	102,629	62,706,1	
Accumulated amortization	-	(10,659,073)	(1,507,098)	(414,979)	(4,645,614)	(164,946)	-	(17,391,71	
Total	23,062,421	2,472,004	3,006,180	1,245,454	15,406,509	19,270	102,629	45,314,4	
At 12/31/15									
Cost	23,062,421	12,824,884	4,513,278	1,660,433	20,052,123	181,177	76,471	62,370,7	
Accumulated amortization	-	(10,439,161)	(1,358,777)	(384,094)	(4,417,041)	(164,523)	-	(16,763,59	
Total	23,062,421	2,385,723	3,154,501	1,276,339	15,635,082	16,654	76,471	45,607,1	

(1) This refers to amounts arising from business combinations, of which R\$15,640,394 is of GVTPart., including goodwill (Note 3) and R\$966 of TGLog (Note 11a).

b) Breakdown of Goodwill

	Company	Consolidated
Ajato Telecomunicação Ltda.	149	149
Spanish e Figueira (merged with TDBH) (1)	-	212,058
Santo Genovese Participações Ltda. (2)	71,892	71,892
Telefônica Televisão Participações S.A. (3)	780,693	780,693
Vivo Participações S. A. (4)	9,160,488	9,160,488
GVT Participações S. A. (5)	-	12,837,141
Total	10,013,222	23,062,421

(1) Goodwill from partial spin-off of "Spanish and Figueira", which was reversed to the Company upon merger with Telefônica Data Brasil Holding S.A. (TDBH) in 2006.

(2) Goodwill generated from the acquisition of equity control in Santo Genovese Participações (parent company of Atrium Telecomunicações Ltda.), in 2004.

(3) Goodwill generated from the acquisition of Telefônica Televisão Participações (formerly Navytreet) merged in 2008, economically based on a future profitability analysis.

(4) Goodwill generated from the acquisition/merger of Vivo Participações in 2011.

(5) Goodwill generated from the acquisition of GVT Participações in 2015 (Note 3).

Page. 30

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS**

Three-month period ended March 31, 2016

(In thousands of *Reais*, unless otherwise stated)**14) PERSONNEL, SOCIAL CHARGES AND BENEFITS**

	Company		Consolidated	
	03/31/16	12/31/15	03/31/16	12/31/15
Salaries and wages	53,074	27,512	95,356	58,201
Social charges and benefits	273,901	265,100	405,193	383,834
Profit sharing	99,703	205,124	114,225	232,404
Share-based payment plans (Note 32)	24,724	39,898	24,724	39,987
Other compensation	2,132	2,197	3,944	4,228
Total	453,534	539,831	643,442	718,654
Circulante	428,810	520,023	618,718	698,846
Non-current	24,724	19,808	24,724	19,808

15) TRADE ACCOUNTS PAYABLE

	Company		Consolidated	
	03/31/16	12/31/15	03/31/16	12/31/15
Sundry suppliers	5,968,926	6,374,471	6,932,229	7,438,202
Amounts payable	149,804	148,793	176,420	165,648
Interconnection / interlink (1)	292,664	421,650	305,813	520,816
Related parties (Note 29)	644,874	552,033	361,057	