TELEFONICA BRASIL S.A.
Form 6-K
March 24, 2017

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, 2017

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 - 28º 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	X	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	X

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

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 with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)

INDEPENDENT AUDITOR'S REPORT ON INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders, Board of Directors and Officers

Telefônica Brasil S.A.

São Paulo, SP

Opinion

We have audited the individual and consolidated financial statements of Telefônica Brasil S.A. ("Company"), identified as Company and consolidated, respectively, which comprise the statement of financial position as at December 31, 2016 and the statements of income, of comprehensive income, of changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting practices.

In our opinion, the accompanying 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, 2016, its individual and consolidated financial 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).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities, under those standards, are further described in the "Auditor's responsibilities for the audit of individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to support our opinion.

Key audit matters

Key audit matters are those which, in our professional view, were the most significant ones in our current year audit. These matters were addressed in the context of our audit of the overall individual and consolidated financial statements and in forming our opinion on the individual and consolidated financial statements. Therefore, we did not express a separate opinion on these matters.

Goodwill impairment

In accordance with the accounting practices adopted in Brazil, the Company is required to test goodwill for impairment on an annual basis to determine whether impairment loss exist, if any. At December 31, 2016 the consolidated balance of this account is R$ 23,062,421 thousand, disclosed in Notes 3i and 14 to financial statements.

The monitoring of this matter was considered to be significant to our audit, since the evaluation of impairment of these intangible assets is complex and involves a high degree of subjectivity, and is based on various assumptions such as: revenue growth, evolution of the operating margin, volume of investments in capital goods, and the Company's discount rate and growth rate for future years. Such assumptions may be significantly affected by market conditions or future economic scenarios in Brazil, which cannot yet be estimated accurately.

Our audit procedures included, among others, the involvement of specialized professionals to assist us with evaluating the assumptions and methodologies used by the Company and its subsidiaries, especially those relating to the most significant assumptions of the model, and with analyzing the sensitivity and evaluating whether a reasonable variation in the most significant assumptions might determine an impairment loss. Furthermore, the procedures included a test of the Company's internal controls when preparing and reviewing the impairment test. We also focused on the Company disclosures of the assumptions used in the calculations of impairment of such intangible assets, which are included in the aforesaid notes to financial statements.

Revenue recognition

Due to the nature of its operations, the Company's revenue recognition is highly dependent on the fair operation of the information technology systems and the respective internal controls to ensure that all services provided were duly recorded in the appropriate accounting period, including unbilled revenues from services provided. Revenue earned by the Company and its subsidiaries and their criteria for recognition in P&L are disclosed in Notes 3b, 3u and 24 to financial statements.

The monitoring of this matter was deemed to be significant to our audit, since the assurance of the integrity of the reports obtained from the billing systems and used as key elements in the calculations of estimated unbilled revenue, which include prorated estimate of the remaining period between billed and unbilled revenue until the end of the corresponding month, besides the high dependence on the operation of the internal control environment, as described above.

Our audit procedures relating to revenue recognition included, among others:

- Test of internal controls regarding the information technology general controls designed by the Company, including the controls over the management of access and changes to the systems and their data, accuracy of calculations made, besides the controls implemented to ensure the integrity of the reports obtained, used for calculation of unbilled revenue;

- Recalculation of the estimated cycles of unbilled services and test of integrity of the report involving the comparison of manual entries regarding the estimate of unbilled services with the respective documental evidence;

- Documental tests for a sample of accounting entries to the revenue account, taking into consideration aspects of significance and unpredictability in our sampling.

Other matters

Statements of value added

The individual and consolidated statements of value added (SVA) for the year December 31, 2016, prepared under the responsibility of Company management and disclosed as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company financial statements. To form our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, where applicable, and whether their form and contents are in accordance with the criteria set out in Technical Pronouncement CPC 09 – Statement of Value Added. In our opinion, these statements of value added were fairly prepared, in all significant respects, according to the criteria set in that Technical Pronouncement and are consistent in relation to the overall individual and consolidated financial statements.

Other information accompanying the individual and consolidated financial statements and the auditor's report

Company management is responsible for such other information comprising the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and did not express any type of audit conclusion on this report.

In connection with the audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, when doing so, consider whether such report is significantly inconsistent with the individual and consolidated financial statements or with our understanding gained during the audit or otherwise appears to be significantly misstated. Should we conclude, based on the work carried out, that there is a significant misstatement in the Management Report, we are required to report such fact. We have nothing to report thereon.

Responsibilities of management and those charged with governance for the individual and consolidated financial statements

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

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting when preparing the individual and consolidated financial statements, unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no other realistic alternative to avoid closedown.

Those charged with the Company’s and its subsidiaries’ governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on auditing will always detects material misstatements when it exists. Misstatements can arise from fraud or error and are considered material if individually or jointly they could reasonably be expected to influence the economic decisions of users made on the basis of these individual and consolidated financial statements.

As part of the audit conducted in accordance with Brazilian and International standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess risks of material misstatements of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.

- Obtain an understanding of internal control relevant to the audit 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 and its subsidiaries' internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt on about the Companies' and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the individual and consolidated financial statements. We are responsible for the management, supervision and performance of the Company's and its subsidiaries' audit and, as a consequence, for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provided those responsible for governance with a declaration that we have complied with the significant ethical requirements, including the applicable Independence requirements, and reported all relationships or matters which might considerably affect our independence, including the respective safeguards, where applicable.

Of the matters subject to disclosure to those responsible for governance, we determined those we considered to be most significant in the audit of the individual and consolidated financial statements for the current year and accordingly consist of key audit matters. We described our matters in our audit report, unless a law or regulation prevents public disclosure of the matter or when, in extremely rare circumstances, we determine that the matter should not be disclosed in our report, as the adverse consequences of such disclosure may, in a reasonable perspective, exceed the benefits of disclosure to the public interest.

São Paulo, February 17, 2017

ERNST & YOUNG Auditores Independentes S.S.

CRC-2SP015199/O-6

Luiz Carlos Passetti

Accountant CRC-1SP144343/O-3

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

		Company		Consolidated		
ASSETS	**Note**	**12.31.16**	**12.31.15**	**12.31.16**	**12.31.15**	**LIABILITI**
Current assets		**17,482,265**	**15,185,519**	**18,398,995**	**17,909,303**	**Current li**
Cash and cash equivalents	5	4,675,627	4,206,595	5,105,110	5,336,845	Personnel
Trade accounts receivable, net	6	8,282,685	7,000,379	8,701,688	8,285,319	Trade acc
Inventories, net	7	368,151	558,264	410,413	603,631	Taxes, ch
Taxes recoverable	8.a	2,952,622	2,164,544	3,027,230	2,521,292	Dividends
Judicial deposits and garnishments	9	302,349	235,343	302,424	235,343	Provisions
Prepaid expenses	10	336,508	317,325	343,092	356,446	Deferred r
Dividends and interest on equity	18	-	18,645	-	489	Loans and
Derivative financial instruments	33	68,943	81,306	68,943	81,306	Debenture
Other assets	11	495,380	603,118	440,095	488,632	Derivative
						Other liabi
Noncurrent assets		**84,475,240**	**82,387,176**	**83,667,264**	**83,775,761**	
Short-term investments pledged as collateral		78,153	90,863	78,166	109,864	**Noncurre**
Trade accounts receivable, net	6	200,537	217,621	305,411	330,451	Personnel
Taxes recoverable	8.a	474,240	337,477	476,844	409,653	Trade acc
Deferred taxes	8.b	-	-	27,497	711,590	Taxes, ch
Judicial deposits and garnishments	9	5,974,733	4,880,489	6,049,142	5,518,120	Deferred t
Prepaid expenses	10	35,340	28,632	36,430	30,609	Provisions
Derivative financial instruments	33	144,050	417,558	144,050	417,558	Deferred r
Other assets	11	53,363	55,228	55,565	62,799	Loans and
Investments	12	**1,407,155**	**24,342,692**	**85,745**	**101,161**	Debenture
Property, plant and equipment, net	13	**31,837,549**	**22,019,076**	**31,924,918**	**30,476,765**	Derivative
Intangible assets, net	14	**44,270,120**	**29,997,540**	**44,483,496**	**45,607,191**	Other liabi
						Equity
						Capital
						Capital res
						Income re
						Premium c
						Other com
						Additional
TOTAL ASSETS		**101,957,505**	**97,572,695**	**102,066,259**	**101,685,064**	**TOTAL LI**

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TELEFÔNICA BRASIL S.A.
Income Statements
Years ended December 31, 2016 and 2015
(In thousands of reais, except earnings per share)

		Company		Consolidated	
	Note	**12.31.16**	**12.31.15**	**12.31.16**	**12.31.1**
Net operating revenue	24	**38,625,395**	**34,003,769**	**42,508,459**	**40,286,81**
Cost of sales	25	(18,734,552)	(17,062,753)	(20,823,014)	(20,345,076
Gross profit		**19,890,843**	**16,941,016**	**21,685,445**	**19,941,73**
Operating income (expenses)		**(14,753,448)**	**(13,159,918)**	**(15,317,426)**	**(14,702,141**
Selling expenses	25	(11,996,153)	(10,801,148)	(12,455,366)	(12,005,477
General and administrative expenses	25	(2,685,366)	(1,887,878)	(2,793,386)	(2,142,459
Other operating income	26	939,516	503,944	968,479	538,23
Other operating expenses	26	(1,011,445)	(974,836)	(1,037,153)	(1,092,444
Operating income		**5,137,395**	**3,781,098**	**6,368,019**	**5,239,59**
Financial income	27	2,654,574	3,763,877	2,781,359	4,728,66
Financial expenses	27	(3,936,318)	(4,239,194)	(4,015,900)	(5,576,843
Equity pickup	12	845,776	748,526	1,244	2,03
Income before taxes		**4,701,427**	**4,054,307**	**5,134,722**	**4,393,45**
Income and social contribution taxes	28	(616,185)	(634,058)	(1,049,480)	(973,207
Net income for the year		**4,085,242**	**3,420,249**	**4,085,242**	**3,420,24**
Basic and diluted earnings per common share (in R$)	23	2.27	2.15		
Basic and diluted earnings per preferred share (in R$)	23	2.50	2.37		

TELEFÔNICA BRASIL S.A.
Statements of Changes in Equity
Years ended December 31, 2016 and 2015
(In thousands of reais)

			Capital
	Capital	**Premium on acquisition of interest**	**Othe capita reserve**
Balances at December 31, 2014	**37,798,110**	**(70,448)**	**2,799,00**
Payment of additional dividend for 2014	-	-	
Prescribed equity instruments	-	-	
Corporate Income Tax Return (DIPJ) adjustments – Tax incentives	-	-	
Cancelation of treasury shares according to the Special Shareholders' Meeting of 3/12/15	-	-	(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	-	
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.	-	-	
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)**	**1,435,75**
Payment of additional dividend for 2015	-	-	
Prescribed equity instruments	-	-	
Reclassification premium on acquisition of equity interest	-	75,388	(75,388
Preferred shares delivered referring to the judicial process of expansion plan	-	-	
DIPJ adjustment - Tax incentives	-	-	
Other comprehensive income	-	-	
Net income for the year	-	-	
Allocation of income:			
Legal reserve	-	-	
Interim interest on equity	-	-	
Dividendos intermediários	-	-	
Reversal of expansion and Modernization Reserve	-	-	

Expansion and Modernization Reserve	-	-	
Additional proposed dividends	-	-	
Balances at December 31, 2016	**63,571,416**	**-**	**1,360,37**

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TELEFÔNICA BRASIL S.A.
Statements of Other Comprehensive Income
Years ended December 31, 2016 and 2015
(In thousands of reais)

		Company		Co
	Note	**12.31.16**	**12.31.15**	**12.31**
Net income for the year		**4,085,242**	**3,420,249**	**4,085,2**
Unrealized gains (losses) on investments available for sale	12	83	(1,870)	
Taxes		(28)	636	(
		55	(1,234)	
Gains (losses) on derivative financial instruments	33	4,803	(344,610)	4,8
Taxes		(1,633)	117,168	(1,6
		3,170	(227,442)	3,
Cumulative Translation Adjustments (CTA) on transactions in foreign currency	12	(17,232)	21,679	(17,2
Other comprehensive income (losses) to be reclassified into income (losses) in subsequent periods		**(14,007)**	**(206,997)**	**(14,0**
Actuarial gains (losses) and limitation effect of the assets of surplus plan	32	(236,645)	408,628	(236,7
Taxes		80,459	(138,933)	80,5
		(156,186)	269,695	(156,2
Interest in comprehensive income of subsidiaries		(80)	(4,705)	
Other comprehensive income (losses) not to be reclassified into income (losses) in subsequent periods		**(156,266)**	**264,990**	**(156,2**
Comprehensive income for the year		**3,914,969**	**3,478,242**	**3,914,9**

TELEFÔNICA BRASIL S.A.
Statements of Value Added
Years ended December 31, 2016 and 2015
(In thousands in reais)

	Company		Consolidate	
	12.31.16	12.31.15	12.31.16	1
Revenues	**53,004,204**	**46,382,330**	**57,732,738**	**54,4**
Sale of goods and services	53,209,390	46,615,748	57,897,521	54,4
Other revenues	1,020,556	783,398	1,183,438	1,1
Provision for impairment of trade accounts receivable	(1,225,742)	(1,016,816)	(1,348,221)	(1,2
Inputs acquired from third parties	**(18,491,586)**	**(18,347,435)**	**(20,418,608)**	**(21,1**
Cost of goods and products sold and services rendered	(9,919,037)	(9,843,692)	(11,611,718)	(11,9
Materials, electric energy, third-party services and other expenses	(9,033,230)	(8,523,931)	(9,273,974)	(9,2
Loss/recovery of assets	460,681	20,188	467,084	
Gross value added	**34,512,618**	**28,034,895**	**37,314,130**	**33,2**
Withholdings	**(7,166,177)**	**(5,657,646)**	**(7,654,406)**	**(6,8**
Depreciation and amortization	(7,166,177)	(5,657,646)	(7,654,406)	(6,8
Net value added produced	**27,346,441**	**22,377,249**	**29,659,724**	**26,4**
Value added received in transfer	**3,500,350**	**4,512,403**	**2,782,603**	**4,7**
Equity pickup	845,776	748,526	1,244	
Financial income	2,654,574	3,763,877	2,781,359	4,7
Total undistributed value added	**30,846,791**	**26,889,652**	**32,442,327**	**31,1**
Distribution of value added	**(30,846,791)**	**(26,889,652)**	**(32,442,327)**	**(31,1**
Personnel,social charges and benefits	(3,989,707)	(2,797,117)	(4,328,985)	(3,5
Direct compensation	(2,723,511)	(1,951,530)	(2,961,166)	(2,4
Benefits	(1,081,627)	(704,297)	(1,167,746)	(8
Unemployment Compensation Fund (FGTS)	(184,569)	(141,290)	(200,073)	(1
Taxes, charges and contributions	(16,413,347)	(14,443,130)	(17,455,205)	(16,3
Federal	(4,600,556)	(4,528,902)	(5,230,279)	(5,3
State	(11,737,192)	(9,839,881)	(12,105,390)	(10,8
Local	(75,599)	(74,347)	(119,536)	(2
Debt remuneration	(6,358,495)	(6,229,156)	(6,572,895)	(7,8
Interest	(3,868,328)	(4,164,923)	(3,941,634)	(5,4
Rental	(2,490,167)	(2,064,233)	(2,631,261)	(2,3
Equity remuneration	(4,085,242)	(3,420,249)	(4,085,242)	(3,4
Interest on equity	(2,172,145)	(1,745,925)	(2,172,145)	(1,7
Dividends	-	(270,000)	-	(2

Retained profit	(1,913,097)	(1,404,324)	(1,913,097)	(1,4

TELEFÔNICA BRASIL S.A.
Consolidated Statements of Cash Flows
Years ended December 31, 2016 and 2015
(In thousands in reais)

	Company		**Co**
	12.31.16	**12.31.15**	**12.31**
Operating activities			
Expenses (revenues) not representing changes in cash:			
Income before taxes	4,701,427	4,054,307	5,134,
Depreciation and amortization	7,166,177	5,657,646	7,654,
Foreign exchange losses (gains) on loans and derivative financial instruments	75,075	(49,847)	75,
Monetary losses	632,120	310,977	620,
Equity pickup	(845,776)	(748,526)	(1,2
Losses (gains) on write-off/sale of goods	(447,178)	45,545	(451,2
Provision for impairment - accounts receivable	1,225,742	1,016,816	1,348,
Increase of trade accounts payable	214,016	288,769	273,
Write-off and reversals for impairment - inventories	(34,151)	(36,012)	(36,8
Pension plans and other post-retirement benefits	5,962	35,239	5,
Provisions for tax, civil, labor and regulatory contingencies	953,003	917,444	985,
Interest expense	1,009,060	785,852	1,049,
Increase (decrease) divestiture	(20,551)	(8,448)	(32,9
Increase (decrease) customer loyalty program	(39,683)	3,223	(39,6
Other	(3)	1,554	
Working capital adjustments:			
Trade accounts receivable	(1,373,628)	(1,573,764)	(1,739,5
Inventories	224,264	(63,764)	230,
Taxes recoverable	(701,786)	(432,587)	(823,3
Prepaid expenses	112,421	88,621	105,
Other current assets	81,363	4,883	10,
Other noncurrent assets	11,476	33,351	12,
Personnel, social charges and benefits	31,694	(164,768)	53,
Trade accounts payable	(798,909)	233,788	(707,9
Taxes, charges and contributions	439,125	(21,610)	601,
Other current liabilities	(516,995)	(1,076,328)	(510,5
Other noncurrent liabilities	(833,049)	(928,516)	(881,9
	11,271,216	**8,373,845**	**12,935,**
Interest paid	(886,156)	(824,952)	(926,2
Income and social contribution taxes paid	(199,605)	-	(568,3
Total cash generated by operating activities	**10,185,455**	**7,548,893**	**11,440,**
Investing activities			
Additions to PP&E, intangible assets and others	(6,828,200)	(5,688,877)	(7,470,8

Cash received from sale of PP&E items	778,240	19,688	778,
Cash paid for acquisition of companies, net of cash acquired	-	(8,903,954)	
Capital increase in subsidiary	-	(5,827,064)	
Redemption of (increase in) judicial deposits	(183,845)	13,224	(202,5
Dividends and interest on equity received	767,554	1,102,911	
Net payment of derivative contracts on acquisition of GVT	-	682,695	
Cash and cash equivalents by Incorporation	358,579	-	
Total cash used in investing activities	**(5,107,672)**	**(18,601,377)**	**(6,894,5**
<u>Financing activities</u>			
Payment of loans, financing and debentures	(2,001,863)	(2,279,518)	(2,171,1
Loans and financing raised	466,629	1,115,210	466,
Received of derivative financial instruments	132,410	765,958	132,
Payment of derivative financial instruments	(239,379)	(429,085)	(239,3
Payment for reverse split of shares	(164)	-	(1
Dividend and interest on equity paid	(2,966,384)	(3,678,665)	(2,966,3
Capital increase	-	16,107,285	
Direct capital increase costs	-	(89,605)	
Payment to Dissenters' rights – shareholders	-	(87,805)	
Total cash generated by (used in) financing activities	**(4,608,751)**	**11,423,775**	**(4,777,9**
Increase (decrease) in cash and cash equivalents	**469,032**	**371,291**	**(231,7**
Cash and cash equivalents at beginning of the year	**4,206,595**	**3,835,304**	**5,336,**
Cash and cash equivalents at end of the year	**4,675,627**	**4,206,595**	**5,105,**
Changes in cash and cash equivalents for the year	**469,032**	**371,291**	**(231,7**

Telefônica Brasil S.A.

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1) OPERATIONS

a) Background information

Telefônica Brasil S.A. (“Company” or “Telefônica Brasil”) is a publicly held 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, 2016 and 2015, Telefónica S.A. (“Telefónica”), the Group holding company based in Spain, held total direct and indirect interest in the Company, including treasury shares of 73.58% (Note 23).

The Company is listed with 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 with the Securities and Exchange Commission (“SEC”), of the United States of America, and its American Depositary Shares (“ADSs”) are classified under level II, backed only by preferred shares and traded on the New York Stock Exchange (“NYSE”).

b) Operations

The Company operates in the provision of services: (i) Fixed Switched Telephone Service Concession Arrangement ("STFC"), except for the municipalities identified on sector 33 of such agreement; (ii) Multimedia Communication Service ("SCM", data communication, including broadband internet); (iii) Personal Mobile Service ("SMP"); and (iv) Pay TV (conditioned access service – “SEAC”), throughout Brazil, through concessions and authorizations, as established in the General Plan of Concessions ("PGO").

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 22). The Company's current STFC concession agreement is valid through December 31, 2025.

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

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

In the auction for sale of the remaining radio frequency bands of 1,800 MHz, 1,900 MHz and 2,500 MHz, held by 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. On July 21, 2016, under Ruling No. 2.483, No. 2.485 and No. 2.486, ANATEL's Steering Board decided to endorse the use of these radio frequencies. The terms of authorization for these frequency bands were entered into on July 26, 2016 and published in the Brazilian Official Gazette ("DOU") on August 26, 2016. In 2016, the total amount was recorded as licenses under intangible assets (note 14).

We set out below a summary of the authorizations for rendering SMP services granted to the Company, according to the specific announcements for each auction held by ANATEL

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	License Expiration (Year)							
Frequency Band	**450 MHz 14 MHz**	**700 MHz 20 MHz**	**800 MHz (4) 25 MHz**	**900 MHz 5 MHz**	**1800 MHz 20 MHz**	**2100 MHz (5) 30 MHz**	**2,5 GHz 40 MHz**	**2,5 GHz 10 MHz**
Operation area								
Region 1 (1)	2027	2029	2020 / 2023 / 2028	2020 / 2023	2020 / 2023	2022 / 2023	2027	2031
Region 2 (2)	-	2029	2021 / 2022 / 2023 / 2024 / 2028	2023	2023	2022 / 2023	2027	2031
Region 3 (3)	2027	2029	2023 / 2024	-	2023	2022 / 2023	2027	2031

(1) Includes the states of Rio de Janeiro, Espírito Santo, Amazonas, Roraima, Amapá, Pará, Maranhão, Minas Gerais, Bahia, Sergipe, Alagoas, Ceará, Paraíba, Pernambuco, Piauí and Rio Grande do Norte.

(2) Includes the states of Paraná, Santa Catarina, Rio Grande do Sul, Distrito Federal, Goiás, Tocantins, Mato Grosso, Mato Grosso do Sul, Rondônia and Acre.

(3) Includes to the State of São Paulo.

(4) All authorization terms for bands A and B have already been renewed for further 15 years. Therefore, there is no other renewal (after 30 years of authorization).

(5) The authorization terms for band L, linked to bands A or B, were renewed during the same period of those bands. The L bands that were realigned to the J band start to have the same date for renewal of the latter. In region 10 and sectors 22, 25, 30 and 33 of the PGO, however, the realignment is expected to be completed by March 2017, subject to ANATEL’s approval by.

The authorizations for each region/state presented in the table above are defined in each authorization term.

c) <u>Corporate restructuring</u>

The Shareholders' Meeting held on April 1, 2016, approved corporate restructuring in accordance with the terms and conditions proposed on March 14, 2016, as described below.

GVT Participações S.A. ("GVTPart.") was the parent company of Global Village Telecom S.A. ("GVT"), companies controlled by the Company from May 28, 2015 to April 1, 2016 (Note 4). GVT was the direct controlling holder of POP Internet Ltda. ("POP"), and indirect controlling holder of Innoweb Ltda. ("Innoweb"), both with head offices in Brazil.

POP is a provider of free Internet access and content. Innoweb (subsidiary of POP) provides services using VoIP technology (voicer over IP), which allows calls using the Internet, with the facilities inherent in this environment.

The corporate restructuring was approved by ANATEL through Ruling No. 50,169, dated January 22, 2016, which was published in the DOU on January 28, 2016, with the conditions provided therein.

The corporate restructuring occurred on the same date as the Shareholders' Meeting mentioned above, as follows: (i) GVT was spun-off and its net assets, including assets, rights and obligations related to telecommunications activities, were absorbed by GVTPart., where as the remaining portion relating to assets, rights and obligations related to activities other than telecommunications was absorbed by POP; and (ii) the net assets of GVTPart. (after the merger of GVT's net assets, item (i) was merged into the Company.

The corporate restructuring intends to standardize the services provided by the companies involved in this process by (i) concentrating the rendering of telecommunication services in a single company, i.e., the Company; and (ii) migrating of activities that were provided by GVT, other than telecommunication services to POP.

As such, the simplification of the corporate structure and the centralization of the provision of telecommunication services at the Company will lead to a converging environment, facilitating consolidation and centralization in the offering of telecommunication services and simplification of service package offerings; optimizing administrative and operating costs; and standardization of the operations at the companies involved in the corporate restructuring.

Shareholding structures at March 31, 2016 (before the corporate restructuring) and as from April 1, 2016 (after the Corporate Restructuring), considering only the companies involved in the corporate restructuring were the following:

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Given that the merger of GVTPart. into the Company did not require a capital increase or a change in shareholders' interest in the Company, since GVTPart. was 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, in accordance with the CVM's position in similar prior cases, and under the terms of CVM Resolution No. 559/08, the provisions of article 264 of Law No. 6404/76 and its further amendments similarly do not apply.

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

Pursuant to the provisions of article 137 of Law No. 6404/76 and its further amendments, the corporate restructuring does not entitle the Company's shareholders to 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 or exercise of the right to withdraw by GVTPart. non-controlling shareholders 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 FINANCIAL STATEMENTS

a) 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 rulings and Brazilian FASB (CPC) pronouncements, guidelines and interpretations issued by the FASB 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 Company management for administration purposes.

b) Basis of preparation and presentation

The Company’s financial statements for the years ended December 31, 2016 and 2015 are presented in thousands of reais (unless otherwise stated), which is the Company’s functional currency and were prepared under the going concern assumption.

Management has assessed the Company's ability to continue operating normally and is convinced that it has the resources to continue its business in the future. In addition, Management is not aware of any material uncertainties that could generate significant doubts about its ability to continue operating. Therefore, these financial statements were prepared based on the assumption of continuity.

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The accounting standards adopted in Brazil require the presentation of the Statement of Value Added ("SVA"), individual and consolidated, while IFRS does not require presentation. As a result, under IFRS standards, the SVA is being presented as supplementary information, without prejudice to the overall financial statements.

The Board of Directors authorized the issue of these individual and consolidated financial statements at the meeting held on February 17, 2017.

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, plant and equipment in operations, measurement of the recoverability of assets with indefinite useful lives, 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 the provision for contingencies. The carrying amounts 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 uncertainties inherent in their estimate process. The Company reviews its estimates at least on an annual basis.

Certain account headings in the tables of these notes to financial statements and the Statement of Value Added were reclassified so as to allow comparison with information for the years ended December 31, 2016 and 2015, as applicable.

For comparability with the individual financial statements (income statement, statements of comprehensive income, statements of value added and statements of cash flows) for years ended December 31, 2016 and 2015, the effects of consolidating GVTPart. on April 1, 2016 (Note 1c) must be considered.

In compliance with CVM Rule No. 565, dated June 15, 2015, the Company reports, in Note 35, the pro forma consolidated income statements (not audited or reviewed) for the year ended December 31, 2015.

The (individual and consolidated) financial statements were prepared in accordance with the principles, practices and criteria aligned with the IFRS issued by IASB and also in accordance with the pronouncements, interpretations and guidelines issued by CPC in force at December 31, 2016, which are the same as those applied to the financial statements at December 31, 2015, except for the new pronouncements, interpretations and amendments, of the following standards, amendments and interpretations published by IASB and the IFRS Interpretations Committee (IFRIC), described below, which came into effect on January 1, 2016, but did not cause significant impacts on the financial statements.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, as amended;
- IFRS 7 Financial Instruments: Disclosures, as amended;
- IFRS 11 Accounting for Acquisitions of Interests in Joint Operations, as amended;
- IFRS 14 Regulatory Deferral Accounts, as issued;
- IAS 1 Disclosure Initiative, as amended;
- IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization, as amended;
- IAS 19 Employee Benefits, as amended; and
- IAS 27 Equity Method in Separate Financial Statements, as amended.

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On the date of preparation of these financial statements, the following IFRS amendments had been published; however, their application was not mandatory. The Company does not adopt early any pronouncement, interpretation or amendment that has been issued, before application is mandatory.

Standards and Amendments to the Standards	**Effective as of:**
IAS 7 Cash Flow, as amended	January 1, 2017
IAS 12 Income Taxes, as amended	January 1, 2017
IFRS 9 Financial Instruments, issued	January 1, 2018
IFRS 15 Revenue from Contracts with Customers, as issued	January 1, 2018
IFRS 2 Classication and Valuation of Share Based Transactions, as amended	January 1, 2018
IFRS 4 Insurance Contracts, as amended	January 1, 2018
IAS 40 Investment Property Transfers, as amended	January 1, 2018
IFRIC 22 Transactions in Foreign Currency and Advance Payments, as issued	January 1, 2018
Annual Improvements to IFRS, 2014-2016 Cycle, as issued	January 1, 2017 / 2018
IFRS 16 Leases, as issued	January 1, 2019
IFRS 10, 12 and IAS 28 Investiment Entities: Applying the Consolidation Excepecion, as amended	TBD

Based on preliminary, the Company expects the implementation of many of these standards, changes and interpretations will not have a significant impact on the financial statements in the initial period of application. However, the Company expects the following standards issued, but not yet mandatory, may have a significant impact on the Company's consolidated financial statements at the time of its application and prospectively.

IFRS 9 - Financial Instruments, Issue: In July 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39 and all previous versions of IFRS 9.

IFRS 9 applies to financial assets and liabilities and establishes the classification, valuation, losses and write-off criteria for recognition of such items, as well as a new hedge accounting model. The Company estimates that major changes will occur in the documentation of hedge policies and strategies, as well as in the estimation of expected losses on financial assets. The changes introduced by IFRS 9 will affect the recognition of financial assets and derivative financial instruments as of January 1, 2018. The Company is carrying out the process of implementing the new criteria, but due to the relevance of the potentially affected items and the complexity of the estimates, understands that it is not reasonably possible to quantify the impacts of the application of this standard on the closing date of the fiscal year ended December 31, 2016.

IFRS 15 - Revenue from Contracts with Customers, Issuance: IFRS 15 establishes criteria’s for the accounting of revenues from customer contracts. The Company is currently in the process of estimating the impacts of this new standard on its contracts. This analysis identified a number of expected impacts related to the following aspects, among others:

• Under the current accounting policy, the Company offers commercial packages that combine equipment’s and services of telephony fixed and mobile, data, internet and television, total revenue of services is distributed among its elements identified based on their respective fair values.

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Under IFRS 15, amounts will be allocated to each element based on the basis of the independent selling prices of each individual component in relation to the total price of the package and will be recognized when (and the measure) the obligation is satisfied. Consequently, the application of the new criteria will mean an acceleration in the recognition of equipment sales revenues, which are generally recognized at the time of delivery to the final consumer. To the extent that the packages are marketed at a discount, the difference between the profit on sales of equipment and the amount received from the customer at the inception of the contract will be recognized as a contractual asset.

• According to the criteria currently in force, all costs directly related to obtaining commercial contracts (sales commissions and other expenses with third parties) are accounted as expenses when incurred. On the other hand, IFRS 15 requires the recognition of an asset for the amounts incurred by these concepts and its subsequent accounting to the income statement according to the period of the respective agreement. Likewise, certain costs related to the performance of the contract, currently recognized as expenses, when incurred, will be deferred when associated with compliance obligations over the period of contract.

• Compared to the current standard, IFRS 15 establishes much more detailed requirements on the accounting treatment of contract changes. Thus, certain changes will be recorded retrospectively and others prospectively as a separate or contract resulting from the redistribution of revenues among the various performance obligations identified.

The Company is advancing in the process of implementing the new criteria, but due to the high number of transactions affected, the high volume and dispersion of the necessary information and the complexity of the estimates, the Company understands that at the closing date of the year ended December 31, 2016 cannot reliably measure the impact of the application of this standard. However, considering the current commercial offers as well as the volume of affected contracts, the Company estimates that the changes introduced by IFRS 15 will have a significant impact on its financial statements at the date of its initial application. In addition, the Company's financial statements will include more quantitative disclosures of revenue-related accounts.

IFRS 16 - Leases, Issuance: IFRS 16 establishes that companies acting as lessees must recognize in the balance sheet the assets and liabilities arising from all lease agreements (except for short-term lease agreements and those for low value assets).

The Company has a very large number of leases as a lessee of various assets, such as third-party towers, circuits, real estate and land (where the towers are primarily located). Under the current standard, significant portions of such contracts are classified as operating leases, where payments are generally recorded on a straight-line basis over the contract term.

The Company is currently in the process of estimating the impact of this new standard on such contracts. In this analysis, the estimate of the term of the lease is included, considering the non-cancellable period and the periods covered if exercised the option to extend the lease for those cases in which exist reasonable certainty, which will depend, of the expected use of the Company's assets installed in the leased assets.

In addition to the term of the lease, assumptions will be used to calculate the discount rate, which will depend mainly on the incremental financing rate for the estimated periods. In addition to the previous estimates, the standard allows two transition methods, being: (i) full retrospective for each comparative period presented; and (ii) modified retrospective with the cumulative effect of the initial application of the recognized standard at the date of initial application. In addition, it is possible to choose specific practical relieves at the time of applying the standard on measurement of liability, discount rate, losses, leases ending within twelve months after the first application, initial direct costs, and lease duration. Thus, depending on the transition method to be chosen, the impacts will be different.

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Due to the different alternatives, as well as the complexity of the estimates and the high number of contracts, the Company has not yet completed the implementation process, so that, at the closing date of the year ended December 31, 2016 it is not possible to estimate the impact of the application of this standard. However, considering the volume of contracts affected, the Company estimates that the changes introduced by IFRS 16 will have a significant impact on its financial statements from the date of adoption, including the recognition of the right to use and the corresponding obligations in respect to the contracts which, under the current standard, are classified as operating leases. In addition, depreciation of the right to use the assets and recognition of interest on the lease obligation will replace a significant portion of the amount recognized as expenses in the income statement of the operating lease. The classification of payments in the statement of cash flows will also be affected by the adoption of IFRS 16.

c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries at December 31, 2016 and 2015. Control is obtained when the Company is exposed or has the right to variable returns based on its involvement with the investee and has the capacity of affecting those returns through the power exercised over an investee.

Specifically, the Company controls an investee if, and only if, it has: (i) power over an investee (i.e., existing rights that ensure it the current capacity of directing investee's activities); (ii) exposure or right to variable returns based on its involvement with an investee; and (iii) the capacity to use its power over an investee to affect results.

Generally, there is an assumption that the majority of voting rights result in control. In order to support this assumption and when the Company has less than the majority of voting rights or similar rights of an investee, the Company considers all relevant facts and circumstances in evaluating whether it has power over an investee, including: (i) the contractual agreement with other parties holding voting rights of the investee; (ii) rights originating from contractual agreements; and (iii) voting rights or potential voting rights of the Company.

The Company evaluates whether or not it exercises control over an investee if facts or circumstances indicate that there are changes in one or more of the three control elements. Consolidation of a subsidiary begins when the Company obtains control in relation to a subsidiary and ends when the Company ceases exercising that control. Assets, liabilities and P&L of a subsidiary acquired or disposed of in the year are included in the consolidated financial statements as from the date on which the Company obtains control up to the date the Company no longer exercises control over a subsidiary.

The Company held the following equity interests on the respective dates:

Investees	Type of investment	At 12.31.16	At 12.31.15	Country (Hea
Telefônica Data S.A. ("TData")	Wholly-owned subsidiary	100.00%	100.00%	
GVT Participações S.A. ("GVTPart.") (note 4)	Wholly-owned subsidiary	-	100.00%	
POP Internet Ltda ("POP") (note 1c)	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%	

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

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3) SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

a) Cash and cash equivalents

These are maintained in order to meet short-term cash commitments and not for investment or other purposes. The Company and subsidiaries consider cash equivalents a short-term investment readily convertible into a known amount of cash and subject to insignificant risk of change in value. Short-term investments are classified as cash-equivalent when redeemable within 90 days (Note 5).

b) Trade accounts receivable, net

These are evaluated by the value of the services provided in accordance with the contracted conditions, net of estimated impairment losses. These include the services provided to customers, which were still not billed until balance sheet date, as well as other trade accounts receivable related to the sale of cellphones, SIM cards, accessories and rent of IT equipment (TData's "Soluciona TI" product). The estimated impairment losses are set up at amounts sufficient to cover any losses and mainly consider the expected default (Note 6).

c) Inventories

These are evaluated and presented at lower of average acquisition cost and net realizable value, whichever is lower. These include cellphones, SIM cards, prepaid cards, accessories, consumption materials and maintenance. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to sell (Note 7).

Estimated impairment losses are set up for materials and devices considered obsolete or whose carrying amounts are in excess of those usually sold by the Company within a reasonable period of time.

d) Prepaid expenses

These are stated at amounts effectively disbursed referring to services contracted but not yet incurred. Prepaid expenses are allocated to the income statemens to the extent that related services are rendered and economic benefits are obtained (Note 10).

e) Investments

The Company's investments in investees (subsidiaries or jointly-controlled entities) are accounted for using the equity method in the individual financial statements. In the consolidated financial statements investments in subsidiaries are fully eliminated and investments in jointly-controlled entities are stated by the equity method without being eliminated.

Joint control is the contractually agreed sharing of a control, only existing when decisions about relevant activities call for unanimous agreement by the parties sharing control.

Based on the equity method, investments are recorded in balance sheets at cost plus changes after the acquisition of the equity interest.

The income statement reflects the portion of profit and losses from operations in investees.

When changes are directly recognized in the investees' equity, the Company will recognize its portion in variations occurred, and as record these variations in the statements of changes in equity and in the statements of comprehensive income, where applicable.

The financial statements of investees are prepared for the same reporting period of the Company. Whenever necessary, adjustments are made so that the accounting policies are in accordance with those adopted by the Company.

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After the equity method is applied, the Company determines whether there is any need to recognize additional impairment of its investment in investees. At each closing date, the Company determines whether there is objective evidence of impairment of investment in the affiliate. If so, the Company calculates the recoverable amount as the difference between the recoverable value of the investees and their carrying amount, and recognizes the amount in the income statemens.

When there is loss of significant influence over the investees, the Company evaluates and recognizes the investment, at that moment, at fair value. Any difference between the investees' carrying amount by the time it loses significant influence and the fair value of the remaining investment and revenue from sale is recognized in the income statemens.

Foreign exchange variations in Aliança's equity (jointly-controlled entity) are recognized in the Company's equity in other comprehensive income ("Effects on conversion of investments abroad", Note 23).

f) Property, plant and equipment, net

Property, plant and equipment are stated at acquisition and/or construction cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the borrowing costs for long-term construction projects if the recognition criteria are met, and is stated net of ICMS (State VAT) credits, which were recorded as recoverable taxes.

Asset costs are capitalized until the asset becomes operational. Costs incurred after the asset becomes operational and that do not improve the functionality or extend the useful life of the asset are immediately recognized on the accrual basis. When significant parts of fixed assets are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation. Likewise, expenses that represent asset improvement (expanded installed capacity or useful life) are capitalized. All the other repair and maintenance costs are recognized in the income statement as incurred.

The present value of the expected cost for the decommissioning of property, plant and equipment items (towers and equipment on leased property) is capitalized at the cost of the respective asset matched against the provision for dismantling obligations (Note 19) and depreciated over the useful lives of the related assets, which do not exceed the lease term.

Depreciation is calculated by the straight-line method over the useful lives of assets, at rates that take into account the estimated useful lives of assets based on technical analyses. The assets' residual values, useful lives and methods of depreciation are reviewed on a yearly basis, adjusted prospectively, if appropriate. Useful life in terms of depreciation rates, which is reviewed annually by the Company, is stated in Note 13.

Property, plant and equipment items are written off when sold or when no future economic benefit is expected from their use or sale. Any gains or losses arising from write-off of assets (measured as the difference between the net disposal proceeds and the net carrying amount of the asset) are recognized in the income statement in the year in which the asset is written off.

A brief description of the main property, plant and equipment items, Note 13 is as follows:

- Switching equipment: This includes switching and control centers, gateway, platforms and other switching equipment.
- Equipment and transmission media: These include base radio station, microcells, minicells, repeaters, antennas, radios, access networks, concentrators, cables, TV equipment and other equipment and means of transmission.
- Terminal/modem equipment: Includes cellphones and modems (rent and free lease), CPCT, public telephones and other terminal equipment.
- Infrastructure: This includes buildings, elevators, central air conditioning equipment, towers, posts, containers, energy equipment, land piping, support and protectors, leasehold improvements, etc.
- Other fixed asset items: These include vehicles, repair and construction tools and instruments, telesupervision equipment, IT equipment, testing and measurement equipment, fixtures and other goods for general use.

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g) Intangible assets, net

Intangible assets acquired separately are measured at cost upon their initial recognition. The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

After initial recognition, intangible assets are stated at acquisition and/or buildup cost, net of amortization and accumulated provision for impairment, where applicable. Intangible assets generated internally, excluding capitalized development costs, are not capitalized, and the expense is reflected in the income statement for the year in which it is incurred.

The useful lives of intangible assets are considered finite or indefinite.

- Intangible assets with finite useful lives are amortized over their economic useful lives under the straight-line method and are tested for impairment whenever there is any indication of impairment loss. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed on an annual basis.

Changes in the estimated useful life or the expected pattern of consumption of future economic benefits embodied in an asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the cost/expense category consistent with the function of the intangible assets.

- Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be justifiable. Otherwise, changes in useful life – from indefinite to finite - are carried out prospectively. Goodwill generated upon investment acquisition is treated as intangible assets with indefinite useful lives.

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in the income statement on disposal.

A brief description of the key intangible asset items with finite useful lives, Note 14, is as follows:

- Software: This includes licenses for software used in the Company's operating, commercial and administrative activities.
- Customer portfolio: This includes intangible assets acquired through business combination, recorded at fair value on the acquisition date.
- Trademarks: These include intangible assets acquired through business combination, recorded at fair value on the acquisition date.
- Licenses: These include concession and authorization licenses, acquired from ANATEL for provision of telecommunication services. These also include licenses from business combinations, recorded at fair value on the acquisition date.

h) Lease

The classification of an agreement as a commercial lease is based on substantive issues related to the use of an asset or specific assets, or even the right to use a given asset, on the initial date of its execution.

Finance lease agreements: By means of these agreements, the Company assumes substantially all risks and rewards relating to ownership of a leased item. These are capitalized at the lease inception at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Initial direct costs incurred in the transaction are added to cost, where applicable. Payments of finance lease agreements are allocated to financial charges and reduction of finance lease liabilities in order to obtain the constant interest rate on the outstanding liability balance. Implicit interest recognized in liabilities is allocated to the income statement over the lease term using the effective interest rate method.

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Leased assets are depreciated according to their estimated useful lives or the lease term, whichever is shorter.

The Company and TData are parties to the following finance lease agreements:

- As lessee: lease agreements for transmission equipment and media arising from a joint construction agreement with another telecomm operator, based on an optical network linked to the power transmission line, interconnecting the northern Brazilian cities to the Company's national backbone and lease of towers and rooftops (arising from sale and finance leaseback, for which the net carrying amount of the assets upon disposal remained unchanged, a liability was recognized at the present value of minimum lease payments and deferred income was recorded at the difference between the selling price and the mentioned present value. (Note 13f).

- As lessor: Lease agreements for IT equipment (TData's "Soluciona TI" product) for which the Company recognizes revenue, upon inception, at the present value of lease payments matched against accounts receivable (Note 6).

The difference between the nominal amount of lease payments and recorded accounts receivable/payable are recognized as finance income/expenses using the effective interest method over the lease term.

Operating lease: These are lease agreements where lessor holds a significant portion of risks and rewards, where effects are recognized in the income statements for the year over the contractual term.

i) Impairment of nonfinancial assets

The Company annually reviews the net carrying amount of assets in order to evaluate events or changes in economic, operating or technological circumstances that may indicate impairment losses. When such evidence is found, and net carrying amount exceeds recoverable amount, a provision for impairment is recorded so as to adjust the net carrying amount to the recoverable amount.

The recoverable amount of an asset or a Cash Generating Unit ("CGU") is defined as the higher of value in use and net sales value.

Upon estimation of the value in use of an asset or cash-generating unit, estimated future cash flows are discounted at present value using a discount rate based on the cost of capital rate the Capital Asset Pricing Model (CAPM) before taxes, which reflects the weighted average cost of capital and specific risks of the asset or CGU.

Whenever possible, the net sale value is determined based on a firm sale agreement executed on an arm's length basis between knowledgeable and willing parties, adjusted by expenses attributable to the sale of assets or, when there is no firm sale agreement, based on the market price of an active market, or on the latest transaction price involving similar assets.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine an asset's or CGU's recoverable amount since the last impairment loss was recognized. Any reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

The following assets have specific characteristics for impairment testing:

- Goodwill: Goodwill is tested for impairment annually at the reporting date or before when circumstances indicate that the carrying amount may be impaired. Where the recoverable amount is lower than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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- Intangible assets: Intangible assets with indefinite useful lives are tested for impairment annually at the reporting date either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying amount may be impaired.

- Determination of value in use: The key assumptions used to estimate value in use are: (i) revenues (projected considering the growth in customer base, growth in market revenue against GDP and the Company's share of this market); (ii) variable costs and expenses (projected in accordance with the dynamics of the customer base, and fixed costs are projected in line with the historical performance of the Company, as well as with revenue growth); and (iii) capital investments (estimated considering the technological infrastructure necessary to enable the provision of services).

Key assumptions were based on the Company's historical performance and reasonable macroeconomic assumptions grounded on financial market projections, documented and approved by Company's management.

The impairment test of the Company and subsidiaries' fixed and intangible assets, including goowill, did not result in recognition of impairment losses for the years ended December 31, 2016 and 2015, since their estimated recoverable amount is greater than the net carrying amount as of the estimation date.

j) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, recorded at fair value on the acquisition date, and the fair value of any noncontrolling interest in the acquiree.

For each business combination, the Company measures noncontrolling interests in the acquiree either at its fair value or on the basis of its proportional share in the identifiable net assets of the acquiree. Costs directly attributable to an acquisition are recorded as expenses, as incurred.

Upon acquiring a business, the Company assesses financial assets acquired and liabilities assumed so as to classify and allocate them in accordance with contractual terms, economic circumstances and relevant conditions on the acquisition date, including the segregation, by the acquiree, of embedded derivatives existing in host contracts in the acquiree.

In the event a business combination is conductedin stages, the ownership interest previously held in the acquiree’s capital is reassessed at fair value on the date control is acquired, and any impacts are recognized in the income statement.

Any contingent portion to be transferred by the acquirer shall be recognized at fair value on the acquisition date. Subsequent changes in the fair value of the contingent portion to be considered as an asset or liability is recognized in the income statement or in other comprehensive income. 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.

Goodwill is initially measured as excess transferred payment amount in relation to acquired net assets (identifiable net assets acquired and liabilities assumed). If consideration is lower than fair value of acquired net assets, the difference must be recognized as gain in the income statement.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that CGU is disposed of, the goodwill associated with that operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is allocated based on the relative fair values of the disposed operation and the portion of the CGU retained.

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k) Financial Instruments – Initial recognition and subsequent measurement

k.1) Financial assets

Initial recognition and measurement

Financial assets are initially classified as financial assets at: (i) fair value through profit or loss; (ii) loans and receivables; (iii) investments held to maturity; (iv) financial assets available for sale or (v) derivatives classified as effective hedge instruments, as applicable. The Company determines the classification of its financial assets upon initial recognition, as they become part of the instrument's contractual provisions.

All financial assets are initially recognized at fair value, plus, in the case of investment that is not determined at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the financial asset.

The Company's consolidated financial assets include cash and cash equivalents, trade accounts receivable, short-term investments pledged as collateral and derivative financial instruments.

Subsequent measurement

Subsequent measurement of financial assets depends on their classification, as follows:

Financial assets at fair value through profit or loss: These include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss: (i) financial assets are classified as held for trading if acquired to be sold within short term. This category includes derivative financial instruments contracted by the Company which do not meet the hedge accounting criteria set out by the corresponding standard; and (ii) financial assets at fair value through profit or loss are stated in balance sheets at fair value with their corresponding gains or losses recognized in the income statements.

Loans and receivables: these refer to non-derivative financial assets with fixed or determinable payments, however not traded in an active market. After initial measurement, these financial assets are stated at amortized cost, using the effective interest method, less impairment, where applicable. Amortized cost is calculated taking into account any discount or “premium” on acquisition and fees or costs incurred. Amortization by the effective interest method and impairment losses are included in the financial income line in the income statement, if applicable.

Investments held to maturity: Non-derivative financial assets with fixed or determinable payment and fixed maturity date are classified as held to maturity when the Company shows intention and financial capacity to hold them up to maturity. After their initial recognition, investments held to maturity are measured at amortized cost using the effective interest method, less impairment losses, where applicable. The amortized cost is calculated taking into consideration any discount or “premium” upon acquisition as well as the fees and costs incurred. Amortization of effective interest method is included in the financial income line in P&L, as applicable. The Company did not record investments held to maturity for the years ended December 31, 2016 and 2015.

Financial assets available for sale: These are non-derivative financial assets not classified as: (i) loans and receivables; (ii) investments held to maturity; or (iii) financial assets at fair value through profit or loss. These financial assets include equity and debt instruments. Debt instruments in this category are those which are intended to be held for an indefinite period and can be sold to meet liquidity needs or in response to changes in market conditions.

After initial measurement, financial assets available for sale are measured at fair value, with unrealized gains and losses being recognized directly in other comprehensive income until such time as the investment is written off, except for impairment losses, interest calculated using the effective interest method and gains or losses due to exchange variations on monetary assets, which are recognized directly in the income statement for the year.

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When the investment is written-off or when a loss is determined due to impairment, the cumulative gains or losses which were previously recognized in other comprehensive income should be recognized in the statement of income.

The fair value of financial assets available for sale denominated in foreign currency is measured in the foreign currency and translated at the spot exchange rate at financial statements date. Changes in fair value attributable to translation differences that result from a change in amortized cost of the asset are recognized in the income statement, and other variations are recognized directly in equity.

Derecognition

A financial asset (or, whenever the case, a part of a financial asset, or a part of a group of similar financial assets) is derecognized when:

- The rights to receive the cash flows from the asset have expired;

- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Company has transferred substantially all the risks and rewards of the asset, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive the cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards related to the asset, the Company continues to recognize a financial asset to the extent of its continuing involvement in that financial asset.

Impairment of financial assets

The Company and its subsidiaries evaluate, at the balance sheet date, if there is any objective evidence indicating that the financial asset or group of financial assets is not recoverable. A loss only exists if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset (a “loss event” occurred) and such event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reasonably estimated.

Evidence of impairment loss may include indications that the borrowing parties are going through significant financial difficulty. The likelihood that they will go bankrupt or enter into some other form of financial reorganization, that they will be in default or provide late payment of interest or principal may be indicated by a measurable drop in the estimated future cash flows, such as changes in maturity or economic conditions related to defaults.

The carrying amount of an asset is reduced by a provision and the loss amount is recognized in the income statement. If, in a subsequent year, estimated impairment increases or decreases due to an event after impairment recognition, impairment loss previously recognized will be adjusted accordingly. Should a written-off asset be recovered in the future, such recovery is recognized in the income statement.

Financial assets at amortized cost

The Company and its subsidiaries initially assess individually if there is clear evidence of impairment loss of each financial asset that is individually relevant, or in group for financial assets that are not individually significant. If the Company concludes that there is no evidence of impairment loss for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics which is then assessed collectively for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in any joint assessment of impairment.

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When there is clear evidence of impairment, the amount of the loss is measured as the difference between book value of asset and the present value of estimated future cash flows (less expected future credit losses not yet incurred). The present value of estimated future cash flows is discounted at the original effective interest rate for the financial asset.

The carrying amount of an asset is reduced by a provision and the loss amount is recognized in the income statement. Loans together with the provision are written-off when there is no realistic prospect of their future recovery and all guarantees have been realized or transferred to the Company or its subsidiaries. If, in a subsequent year, estimated impairment increases or decreases due to an event after impairment recognition, impairment loss previously recognized will be adjusted accordingly. Should a written-off asset be recovered in the future, such recovery is recognized in the income statement.

k.2) Financial liabilities

Initial recognition and measurement

Upon initial recognition, the Company's financial liabilities are classified in the following categories: financial liabilities measured at fair value through profit or loss, loans and financing, accounts payable or derivatives classified as hedging instruments, as the case may be.

Financial liabilities are initially recognized at fair value plus, in the case of loans and financing, transaction cost directly attributable thereto.

The Company's consolidated financial liabilities include trade accounts payable, loans and financing, debentures, finance lease agreements, contingent payments and derivative financial instruments.

Subsequent measurement

Measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss: These include financial liabilities designated upon initial recognition at fair value through profit or loss. This category also includes derivative financial instruments contracted which do not meet the hedge accounting criteria set out by the corresponding standard.

For the years ended December 31, 2016 and 2015, the Company and its subsidiaries did not record any financial liability at fair value through profit or loss upon initial recognition.

Loans and financing: After initial recognition, loans and financing subject to interest are subsequently measured at amortized cost, using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate amortization process.

Derecognition

A financial liability is derecognized when the obligation has been revoked, cancelled or has expired.

When an existing financial liability is replaced by another of the same lender, and the terms of the instruments are substantially different, or when the terms of an existing debt instrument are substantially modified, this replacement or modification is treated as derecognition of the original liability and recognition of a new liability, and the difference in the corresponding carrying amounts is recognized in the income statement.

k.3) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liability will take place (i) in the principal market for the asset or liability; or (ii) in the absence of a principal market, in the most advantageous market for that asset or liability.

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The Company and or its subsidiaries must have access to the principal (or most advantageous) market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing an asset or liability, assuming that market participants act in their best economic interests.

Fair value measurement of a non-financial asset takes into consideration the capacity of a market participant to generate economic benefits through the best use of the asset, or selling it to another market participant that would also make the best use of the asset.

The Company and its subsidiaries use valuation techniques appropriate for the circumstances and for which there is sufficient data for fair value measurement, maximizing the use of relevant available information and minimizing the use of unavailable information.

For assets and liabilities recurrently recognized in the financial statements, the Company determines whether there were transfers between the hierarchy levels, revaluating the classification (based on the lowest level input that is significant to the overall fair value measurement) at the end of each reporting period.

For the purposes of fair value disclosures, the Company and its subsidiaries determined classes of assets or liabilities based on the nature, characteristics and risks of those assets or liabilities and the fair value hierarchy level, as mentioned above.

k.4) Financial instruments - net

Financial assets and liabilities are presented net in the balance sheet if, and only if, there is a current enforceable legal right to offset the amounts recognized and if there is an intention to offset or realize the asset or settle the liability simultaneously.

l) <u>Derivative financial instruments and hedge accounting</u>

The Company uses derivative financial instruments, such as currency and interest rate swaps or currency nondeliverable forward contracts to hedge against currency risks.

Derivative financial instruments designated in hedge transactions are initially recognized at fair value on the date on which the derivative contract is entered into, and subsequently revalued also at fair value. Derivatives are presented as financial assets when the fair value of the instrument is positive and as financial liabilities when the fair value of the instrument is negative.

Any gains or losses resulting from changes in fair value of derivatives during the year are posted directly to the income statement, except for the effective portion of cash flow hedges, which is recognized directly in equity as other comprehensive income and subsequently reclassified to P&L when the hedged item affects P&L.

Inception initial recognition of a hedge relationship, the Company formally designate and documents the hedge relationship to which it wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk, the nature of unhedged risks, the prospective statement of hedge effectiveness and how the Company shall assess the effectiveness of changes in the hedging instrument’s fair value in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk.

For the purpose of hedge accounting, hedges are classified as cash flow hedges and fair value hedges.

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I.1) Cash flow hedges

Cash flow hedges meeting the recording criteria are accounted for as follows: (i) the portion of gain or loss from the hedge instrument determined as effective hedge shall be recognized directly in equity (in other comprehensive income), and (ii) the ineffective portion of gain or loss from the hedge instrument shall be recognized in the income statement.

When the Company's documented risk management strategy for any given hedge relationship excludes from the hedge effectiveness evaluation any particular component of gain or loss or the corresponding cash flows from the hedge instrument, that gain or loss component is recognized in financial income (expenses).

Amounts recorded in other comprehensive income are immediately transferred to the income statement when the hedged transaction affects P&L, for example, when the hedged financial income or expenses are recognized or when a sale occurs. When a hedged item is the cost of a non-financial asset or liability, amounts recorded in equity are transferred at the initial carrying amount of the non-financial assets and liabilities.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge fails to meet the hedge accounting criteria, any cumulative gain or loss previously recognized in other comprehensive income remains separately in equity until the forecast transaction occurs or the firm commitment is fulfilled.

The Company's contracts are classified as cash flow hedges when they provide protection against changes in cash flows that are attributable to a particular risk associated with a recognized liability that may affect the profit or loss and fair value when they provide protection against exposure to changes in the fair value of the identified part of certain liabilities that is attributable to a particular risk (exchange variation) and may affect the profit or loss.

l.2) Fair value hedges

Fair value hedges meeting the accounting criteria are accounted for as follows: (i) gain or loss from changes in fair value of a hedge instrument shall be recognized in the income statement as finance costs; and (ii) gain or loss from a hedged item attributable to the hedged risk shall adjust the recorded amount of the hedged item to be recognized in the income statement, as finance costs.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying amount is amortized through profit or loss over the remaining term of the hedge using the effective interest method. The effective interest rate amortization may begin as soon as any adjustment exists and no later than the point that the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in the income statement.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

l.3) Classification between current and noncurrent

Derivative financial instruments are classified as current and noncurrent or segregated into short and long term portions based on an evaluation of the contractual cash flows.

When the Company maintains a derivative as economic hedge (and does not apply hedge accounting), for a period exceeding 12 months after balance sheet date, the derivative is classified as noncurrent (or segregated into current and noncurrent portions), in line with the classification of the corresponding item.

Derivative instruments that are designated as effective hedging instruments are classified consistently with the classification of the underlying hedged item.

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The derivative instrument is segregated into current and noncurrent portions only when amounts can be reliably allocated.

m) Loans and financing

Loans and financing obtained are initially recognized at fair value, net of costs incurred to obtain them and subsequently measured at amortized cost (plus charges and pro rata interest), considering the effective interest rate of each operation.

These are classified as current, unless the Company has an unconditional right to settle the liability for at least 12 months after year end.

n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a period of time exceeding 18 months to prepare for its intended use or sale form part of the cost of that asset.

All other borrowing costs are recorded in the period they are incurred. Borrowing costs include interest and other costs incurred by an entity in connection with the borrowing of funds.

In 2016 and 2015, the Company did not capitalize amounts related to borrowing costs.

o) Interest on equity and dividends

o.1) Interest on equity

Brazilian legislation allows companies to pay interest on equity, which is similar to payment of dividends; however, this is deductible for income tax calculation purposes. In order to comply with Brazilian tax legislation the Company and its subsidiaries provision, in its accounting records the amount due to match against the financial expenses account in the income statement for the year. For the presentation of these financial statements, that expense is reversed against a direct charge to equity, resulting in the same accounting treatment adopted for dividends. The distribution of interest on equity to shareholders is subject to withholding income tax at a 15% rate.

o.2) Dividends

Minimum mandatory dividends are stated in the balance sheet as legal obligations (provisions in current liabilities). Dividends in excess of such minimum amount, not yet approved in the Shareholders' Meeting, are recorded in equity as proposed additional dividends. After approval at the Shareholders' meeting, the dividends in excess of minimum mandatory are transferred to current liabilities, and classified as legal obligations.

p) Provisions

p.1) General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, when it is probable that economic benefits are required to settle the obligation and a reliable estimate of the value of the obligation can be made. Provisions are restated at the balance sheet date considering the likely amount of loss and the nature of each contingency.

Provisions for contingencies are presented at their gross amount, less the corresponding judicial deposits, and are classified as provisions for civil, labor, tax and regulatory contingencies.

Judicial deposits are classified as assets given that the conditions required for their net presentation with the provision do not exist.

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p.2) Provisions for civil, labor, tax and regulatory legal claims

The Company is party to labor, tax, civil and regulatory administrative and legal proceedings and set up a provision for contingencies whose likelihood of loss was estimated as probable. The assessment of the likelihood of loss includes an analysis of available evidence, the hierarchy of laws, available case law, the latest court decisions law and their relevance in the legal system, as well as the opinion of outside legal counsel. Provisions are reviewed and adjusted considering changes in existing circumstances, such as the applicable statute of limitations, tax audit conclusions, or additional exposures identified based on new matters or court decisions.

p.3) Provision for decommissioning of assets

This refers to costs to be incurred due to returning sites to owners (locations intended for tower and equipment installation on leased property) in the same condition as these were found at the time of execution of the initial lease agreement.

These costs are provisioned at the present value of amounts expected to settle the obligation using estimated cash flows and are recognized as part of the cost of the corresponding asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to decommissioning of assets. The financial effect of the discount is recorded as incurred and recognized in the income statement as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to, or deducted from, the cost of the asset.

p.4) Contingent liabilities recognized in a business combination

A contingent liability recognized in business combination is initially measured at fair value (Note 4).

q) <u>Taxes</u>

q.1) <u>Current taxes</u>

Current tax assets and liabilities for the current and prior years are measured at the estimated amount recoverable from, or payable to, the tax authorities. The tax rates and laws used in calculating the amounts referred to above are those in effect, or substantially in effect, at year end. In the balance sheet, current taxes are presented net of prepayments over the year.

Current income and social contribution taxes related to items directly recognized in equity are also recognized in equity. Management regularly assesses the tax position in circumstances in which tax regulation requires interpretation, and sets up provisions therefor when appropriate.

q.2) <u>Deferred taxes</u>

Deferred taxes arise from temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amount.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and losses, to the extent that taxable profit is likely to be available for realization of deductible temporary differences, and unused tax credits and losses are likely to be used, except: (i) when the deferred tax asset related to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction other than a business combination and does not impact, at the transaction date, the book profit, income or loss for tax purposes; and (ii) on deductible temporary differences related to investments in subsidiaries, where deferred tax assets are recognized only to the extent that it is probable that temporary differences will be reversed in the near future and taxable profit is likely be available so that temporary differences can be used.

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The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit shall be available to allow all or part of the deferred tax asset to be used. Derecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized on all temporary tax differences, except: (i) when the deferred tax liability arises from initial recognition of goodwill, or an asset or liability in a transaction other than a business combination, and does not affect book profit or taxable profit or tax losses on the transaction date; and (ii) on temporary tax differences related to investments in subsidiaries, in which the temporary difference reversal period can be controlled and temporary differences are not likely to be reversed in the near future.

Deferred tax assets and liabilities are measured at the tax rate expected to be applicable for the year the asset will be realized or the liability will be settled, based on the rates provided in tax legislation and that were published as of year-end.

Deferred tax assets and liabilities are not discounted to present value and are classified in the balance sheet as noncurrent, irrespective of their expected realization.

The tax effects of items recorded directly in equity are also recognized in equity. Deferred tax items are recognized based on the transaction which gave rise to that deferred tax, in comprehensive income or directly in equity.

Deferred tax assets and liabilities are presented net when there is a legal or constructive right to offset a tax asset against a tax liability and deferred taxes relate to the same taxpaying entity and are subject to the same tax authority.

q.3) Sales taxes

Revenues are recognized net of value added taxes, which from services rendered is subject to State Value-Added Tax (ICMS) or Service Tax (ISS) at the rates in force in each region as well as and to Social Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Social Contribution Tax on Gross Revenue for Social Security Financing (COFINS) taxation on a cumulative basis for revenue from telecommunication services, at 0.65% and 3%, respectively. Other revenue earned by the Company, including revenue from resale of goods, on a noncumulative basis, is taxed at 1.65% and 7.6% for PIS and COFINS, respectively, and by ICMS at the rates in force in each State.

Prepayments or recoverable amounts are stated in current or noncurrent assets, based on their estimated realization.

r) Other assets and liabilities

Assets are recognized in the balance sheet when it is likely that their future economic benefits will flow to the Company, and their cost or value can be reliably measured.

A liability is recognized in the balance sheet when the Company or its subsidiaries have a legal or constructive obligation as a result of a past event, the settlement of which is likely to generate an outflow of economic benefits.

Assets and liabilities are presented in the balance sheet classified as current or noncurrent.

An asset is classified as current when: (i) it is expected to be realized or is intended to be sold or used in the ordinary operational cycle; (ii) it is mainly held for trading purposes; (iii) it is expected to be realized within 12 months from the reporting period; or (iv) cash and cash equivalents, unless there are restrictions upon exchange thereof, i.e., when used to settle a liability within 12 months from the reporting period. All other assets are classified as noncurrent.

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A liability is classified as current when: (i) it is expected to be settled in the ordinary operational cycle; (ii) it is mainly held for trading purposes; (iii) It is expected to be settled within 12 months from the reporting period; or (iv) there is no unconditional right to defer settlement of the liability within 12 months from the reporting period. All other liabilities are classified as noncurrent.

s) Present value adjustment of assets and liabilities

Current and noncurrent monetary assets and liabilities are adjusted to their present value when the effect on the overall financial statements is considered significant. The present value adjustment is calculated using contractual cash flows and the explicit, and sometimes implicit, interest rates of the respective assets and liabilities.

Accordingly, the interest rate embedded in revenues, expenses and related costs is discounted, so that these assets and liabilities are recognized on an accrual basis. This interest is subsequently reallocated to financial income and expenses in P&L through use of the effective interest method in relation to contractual cash flows. Implicit interest rates were determined based on assumptions, and accounting estimates are considered.

t) Government grants and assistance

Government grants are recognized when there is reasonable certainty that the benefit will be received and that all the related conditions will be met. When the benefit refers to an expense item, it is recognized as revenue along the benefit period, on a systematic basis in relation to the costs the benefit it intends to offset.

When the Company receives non-monetary grants, the asset and the benefit are recorded at nominal amounts and reflected in the income statements over the expected useful life of the asset by equal annual installments. A loan or assistance is initially recognized or measured at fair value. A government grant is measured as the difference between the initial carrying amount of the loan and proceeds therefrom. A loan is subsequently measured in accordance with the applicable accounting policy.

When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as an additional government grant.

The financing lines with the Brazilian Development Bank (BNDES), with interest rates not exceeding those prevailing in the market, are classified under the scope of IAS 20/CPC 7, and are recorded at fair value based on market rates. Adjustment arising from the comparison of the amount measured based on the rate agreed upon is accounted for as deferred revenue (Note 20).

u) Revenue recognition

Revenues substantially correspond to value of considerations received or receivable arising from the provision of telecommunications or communications services, the sale of goods and other revenue, and are stated net of taxes, discounts or returns (in case of sale of goods) thereon. Revenues and expenses are stated on the accrual basis of accounting.

Revenue is recognized when it is probable that future economic benefits will flow to the Company or its subsidiaries, when it can be reliably measured, costs incurred in the transaction can be measured, the risks and rewards have been substantially transferred to the buyer and when specific criteria have been met for each of the Company's activities.

Consolidated revenues of the Company comprise basically telecommunication services regarding voice, data and digital services, broadband, TV and additional telecommunication services that are offered to customers through fixed-price traffic packs (paid on a monthly basis) or based on customers' consumption, remuneration for network usage and sale of goods.

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u.1) Recognition of revenues from telecommunication services

Revenues from telecommunication, data and digital services, broadband services provided are recorded on an accrual basis based on the amounts agreed upon. Local and long-distance calls are billed by the measurement process under legislation in force. The services billed on fixed monthly amounts are calculated and accounted for on a straight-line basis. Unbilled revenues from the last billing up to the balance sheet date are recognized in the month in which the service is provided.

Revenues related to sale of public phone cards and pay-as-you-go credit for cellphones as well as the respective taxes are deferred and recognized in the income statement to the extent that the services are effectively rendered.

Revenues from equipment lease contracts classified as finance lease agreement (TData's Soluciona TI product) are recognized on installation of equipment whereupon effective transfer of risk takes place. Revenue is recognized at present value of future minimum payments provided for in the agreement.

Revenues from services are basically subject to the following indirect taxes: ICMS or ISS (as applicable), PIS and COFINS.

u.2) Recognition of revenue and cost from sales of goods

Revenues and cost of sales (mobile phones, simcards and accessories) are recorded when risks and rewards inherent in such goods are transferred to buyers.

Sales made in own stores are recognized upon sale to end consumer. Revenues and costs of sales made by accredited dealers are deferred and recognized in P&L when the device is activated, limited to 90 days from the sale date.

u.3) <u>Customer loyalty program</u>

The Company has a loyalty points program that enables customers to accumulate points when they pay bills regarding the usage of the services offered. The accumulated points may be exchanged for telephone sets or services, conditional upon obtaining a minimum balance of points by customer. The consideration received is allocated to the cost of sets or services at fair value. The fair value of points is determined by dividing the amount of discount granted by the number of points necessary for the redemption based on the points program. The portion of revenue related to the fair value of the accumulated balance of points generated is deferred and recognized as revenue upon redemption of points.

The number of points to be accounted for is determined through statistical techniques that consider assumptions and historical data on expected redemption rates, expiration percentages and cancellation of points, among other factors. These estimates are subject to variations and uncertainties due to changes in the behavior of customer redemptions.

u.4) <u>Membership fee and promotional campaigns</u>

Participation fees paid for promotional campaigns by customers of the Company are deferred and recorded in P&L throughout the duration of such campaign.

u.5) <u>Agreements combining more than one element</u>

Commercial packages offered by the Company that combine different elements are analyzed to determine whether it is necessary to separate the different elements identified, adopting the recognition criterion that is most adequate to each situation. Total revenue generated by the package sale is distributed among its elements, based upon their respective fair values.

The fair value determination of each element then identified implies the need for complex estimates given the nature of the business. A possible change in fair values estimates could affect the distribution of revenues between components and consequently the deferred revenue.

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v) Financial income (expenses)

These include interest, and monetary and exchange variations arising from short-term investments, derivative transactions, loans, financing, debentures, present value adjustments of transactions that generate monetary assets and liabilities and other financial transactions. These are recognized on an accrual basis when earned or incurred by the Company.

For all financial instruments measured at amortized cost and interest-yielding financial assets classified as available for sale, interest income or expense is recognized using the effective interest method, which exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

w) Post-retirement benefit plans

The Company and its subsidiaries individually sponsor pension funds of post-retirement benefits for active and retired employees, in addition to a multisponsor supplementary retirement plan and health care plan for former employees. Contributions are determined on an actuarial basis and recorded on an accrual basis. Liabilities relating to defined benefit plans are determined based on actuarial evaluations at each year end, in order to ensure that sufficient reserves have been set up for both current and future commitments.

Actuarial liabilities related to defined benefit plans were calculated using the projected unit credit method. Actuarial gains and losses are recognized immediately in equity (in other comprehensive income).

For plans with defined contribution characteristics, the obligation is limited to the contributions payable, which are recognized in the P&L in the respective accrual periods.

The asset or liability related to defined benefit plan to be recognized in financial statements corresponds to the present value of the obligation for the defined benefit (using a discount rate based on long-term National Treasury Notes "NTNs"), less fair value of plan assets that will be used to settle the obligations. Plan assets are assets held by a privately-held supplementary pension plan entity. Plan assets are not available to the Company's creditors or those of its subsidiaries and cannot be paid directly to the Company or its subsidiaries. The fair value is based on information on market prices and, in case of securities quoted, on purchase price disclosed. The value of any defined benefit asset then recognized is limited to the present value of any economic benefits available as a reduction in future plan contribution from the Company.

Actuarial costs recognized in the income statement are limited to the service cost and cost of interest on the defined benefit plan obligation. Any changes in the measurement of plan assets and obligations are initially recognized in other comprehensive income, and immediately reclassified to P&L.

The Company manages and individually sponsors a health care plan for retired employees and former employees with fixed contributions to the plan, in accordance with Law No. 9656/98 (which provides for private health care and health insurance plans). As provided for in articles 30 and 31 of said law, participants shall have the right to the health care plan in which they participated while they were active employees.

x) <u>Significant accounting judgments, estimates and assumptions</u>

The preparation of the financial statements requires management to make judgments, estimates and adopt assumptions supported by valuation 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.

Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties inherent in their estimate process.

Significant assumptions concerning sources of uncertainty in future estimates and other significant sources of estimation uncertainty at the balance sheet date, involving a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, are as follows:

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x.1) Impairment of non-financial assets

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use. The calculation of fair value less cost to sell is based on information available on transactions for sale of similar assets or market prices less additional costs to dispose of the asset. The calculation of value in use is based on the discounted cash flow model. The recoverable amount is sensitive to the discount rate used in the discounted cash flow method, as well as expected future cash receipts and growth rate used for extrapolation purposes.

The Company regularly analyzes the performance of the defined cash generating unit in order to identify any impairment of goodwill and its other assets. Determination of the recoverable amount of the cash generating unit to which goodwill is attributed includes use of assumptions and estimates and requires use of significant accounting judgment and criterion.

x.2) Post-retirement benefit plans

The cost of pension plans with defined benefits and other post-employment health care benefits and the present value of the pension obligation are determined using actuarial valuation methods. Actuarial valuation involves use of assumptions about discount rates, future salary increases, mortality rates and future increases in pension and annuity benefits. The obligation for defined benefits is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis.

The mortality rate is based on publicly available mortality tables in the country. Future salary increases and pension increases are based on expected future inflation rates for the country.

x.3) Fair value of financial instruments

When the fair value of financial assets and liabilities stated in the balance sheet cannot be obtained in active markets, it will be determined using valuation techniques, including the discounted cash flow method. Data for these methods is based on those adopted in the market, whenever possible. However, when this is not feasible, a certain level of judgment is required for fair value determination. Judgment includes consideration of the inputs used, such as liquidity risk, credit risk and volatility. Changes in the assumptions about these factors could affect the reported fair value of financial instruments.

x.4) Property, plant and equipment and finite-lived intangible assets

The accounting treatment of investment in fixed and intangible assets includes estimating useful life period for depreciation purposes and the fair value at the date of acquisition, particularly for assets acquired in business combinations.

Useful life determination requires estimates regarding the expected technological developments and alternative uses of assets. The hypotheses related to the technological aspect and its future development imply a significant level of analysis, considering the difficulties in forecasting time and nature of future technological changes.

x.5) Revenue recognition – Customer Loyalty Program

The Company estimates the fair value of points attributed under the customer loyalty program by applying statistic techniques. Inputs for the model include assumptions about expected redemption rates, the mix of products that will be available for future redemption and customers' preference in relation to points use. Since issued points do not expire, these estimates are subject to significant uncertainties.

x.6) Agreements combining more than one element

The fair value determination of each element in a multiple element agreement requires complex estimates given the nature of the business. A possible change in fair value estimates could affect the distribution of revenues between components and consequently the deferred revenues.

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x.7) Taxes

There are uncertainties regarding the interpretation of complex tax regulations and the amount and timing of future taxable profits. The Company and its subsidiaries set up provisions, based on reasonable estimates, for the possible consequences of audits by tax authorities in respective jurisdictions in which they operate. The amount of these provisions is based on various factors, such as previus tax audit experience and different interpretations of tax regulations by the taxable entity and by the relevant tax authority. Such differences in interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Company or those of its subsidiaries.

The Company and its subsidiaries evaluate the recoverability of deferred tax assets based on estimates of future profits. This recoverability ultimately depends on the ability of the Company or its subsidiaries to generate taxable profits over the period in which the deferred tax asset is deductible. The analysis considers the reversal period of deferred tax liabilities, as well as estimates of taxable profits, based on updated internal projections reflecting the latest trends.

Determining the proper classification of the tax items depends on several factors, including an estimate of the period and the realization of the deferred tax asset and the expected date of payments of these taxes. The actual flow of receipt and payment of income tax could differ from estimates made by the Company and its subsidiaries, as a result of changes in tax laws or of unexpected future transactions that may impact tax balances.

x.8) Provisions for tax, labor, civil and regulatory proceedings

Provisions are recognized when the Company has a present obligation arising from a past event, settlement of which requires an outflow of resources rated as probable and when it can be reliably estimated. This obligation can be legal or constructive, derived from, among other factors, regulations, contracts, customary practices or public commitments that expose third parties to a valid expectation that the Company or its subsidiaries will assume certain responsibilities. The determination of the provision is based on the best estimate of the disbursement required to settle the corresponding obligation, considering the information available as of the closing date, including the opinion of independent experts, such as legal advisors.

y) Functional and reporting currency

The Company's functional and reporting currency is the Brazilian real. Transactions in foreign currency were translated at the exchange rate in force as of the date the transaction. Assets and liabilities denominated in foreign currencies are translated using the exchange rate at the balance sheet date. The exchange rate variations arising from transactions in foreign currencies are recognized in P&L as financial income or expenses. Gains and losses on the translation of foreign investments are recognized in the statement of comprehensive income.

z) Translation of transactions denominated in foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency (real) at the exchange rate (fx rate) in force as of the transaction date and subsequently re-measured based on the fx rates effective that, at December 31, 2016, were US$1.00 = R$3.2591, €1.00 = R$3.4351, and at December 31, 2015, were: US$1.00 = R$3.9048, €1.00 = R$4.2512. Gains and losses resulting from the translation of these assets and liabilities due to exchange rate variation between transaction date and period end are recognized in the income statement.

aa) Employee profit sharing

The Company and its subsidiaries have obligations arising from employment contracts, recognizing these provisions during the year. Provisions are recorded to recognize the expense regarding employee profit sharing. These provisions are calculated based on qualitative and quantitative goals set by management and accounted for in specific accounts according to their function in groups of: Cost of services, Selling expenses and General and administrative expenses.

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ab) Share-based payments

The Company and its subsidiaries measure the cost of transactions settled with employees and officers based on shares issued by parent company (Telefónica), by reference to the fair value of the shares at the date at which they are granted, using the binomial valuation model. This fair value is charged to the income statement over the period until the vesting date.

ac) Treasury shares

Own equity instruments that are repurchased (treasury stock) are recognized at cost and deducted from equity. No gains or losses are recognized in P&L on purchase, sale, issue or cancellation of the Company's own equity instruments.

ad) Segment reporting

Business segments are defined as components of a company for which separate financial information is available and regularly assessed by the operational decision making professional in decisions on how to allocate funds to an individual segment and in the assessment of segment performance. Considering that : (i) all officers and managers' decisions are based on consolidated reports; (ii) the Company and subsidiaries' mission is to provide their customers with quality telecommunications services; and (iii) all decisions related to strategic planning, finance, purchases, short- and long-term investments are made consolidated on a consolidated basis, the Company and subsidiaries operate in a single operating segment, namely the provision of telecommunications services.

ae) Statement of cash flows and statement of value added

The statement of cash flows was prepared in accordance with IAS 7/CPC 03 – Statement of Cash Flows using the indirect method, and reflects the changes in cash for the years reported.

The statement of value added (SVA) is shown as supplementary information, in compliance with Brazilian Corporation Law and was prepared in accordance with CPC09 – Statement of value added. The purpose of the statement of value added is to disclose the wealth generated by the Company during the year and the wealth distribution among its stakeholders.

4) ACQUISITION OF GVT PARTICIPAÇÕES S.A. (“GVTPart.”)

Pursuant to, and for the purposes of, CVM Rule No. 358/02, the Company informed the market that its Special Shareholders’ Meeting (“AGE”) held on May 28, 2015 approved the ratification of the Stock Purchase Agreement and Other Covenants executed by the Company, in the capacity of “Buyer”, and Vivendi and its subsidiaries (Société d’Investissements et de Gestion 108 SAS - “FrHolding108” and Société d’Investissements et de Gestion 72 S.A.), in the capacity of “Sellers”, whereby all the shares issued by GVTPart were acquired by the Company.

Payment for acquisition of GVTPart shares was made as follows:

- €4.663 billion paid in cash after contractual adjustments for net debt assumed on the execution date; and

- Company-issued shares delivered to FRHolding108 as a result of the merger of GVTPart shares by the Company, representing 12% of the Company’s capital stock after the merger of shares.

As a result of the merger of GVTPart shares, the Company’s capital increased by R$9,666,021, with the issuance of 68,597,306 common shares and 134,320,885 preferred shares, all registered, no-par value shares, based on the economic value of merged shares calculated using the discounted cash flow method and on the appraisal report on GVTPart’s economic value prepared by an expert firm, in accordance with article 252, paragraph 1, together with article 8, of Law No. 6404/76. The difference between the economic value of merged shares and the market value of shares issued on the transaction closing date was recognized in “Other Capital Reserves”, in the amount of R$1,188,707.

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This transaction was subject to obtaining of applicable corporate and regulatory approvals, including from Brazil's 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, 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, and published in the Official Federal Gazette ("DOU") on March 31, 2015.

Once the acquisition transaction was completed on May 28, 2015, the Company held direct interest in GVTPart and indirect interest in GVT. GVTPart. is headquartered in Brazil as its business purpose includes participation in other companies, whether national or foreign, as partner, shareholder or member. Its direct subsidiary (GVT) provides land-line telephone, data, multimedia communication and pay-tv services throughout Brazilian territory.

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, the liabilities assumed at the acquisition date from the former 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 Euros to Vivendi, for the acquisition of GVTPart., against exchange rate variation of the amount.

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 are presented below. At the date of preparation of the financial statements for the year ended December 31, 2015, the Company had already completed the revisions and adjustments of the fair value determination of the identifiable assets acquired and liabilities assumed by GVTPart.

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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
Noncurrent assets	**12,026,239**		
Short-term investment pledged as collateral	17,871	**Noncurrent 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**
Fair value of assets acquired	**13,583,890**	**Total consideration, net of Cash Flow Hedge**	**17,263,514**

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

(2) This includes the allocation of fair value assigned to the brand (R$59,000), customer portfolio (R$2,523,000), appreciation and other intangibles 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 has already been used for tax purposes.

The main purpose of the Company’s acquiring of control over GVTPart was to enable the integration of land-line, mobile, data and TV telecommunication services in Brazil, with a view to operating more efficiently. The acquisition of GVTPart. allows the Company to obtain significant synergies in revenues and costs, thus generating opportunities of cross sales in the individual and corporate markets, also allowing optimization of investments, improvement of service quality, reduction of cost of content, acquisition and platform in the pay-TV business, due to economies of scale, as well as reduction of general and administrative expenses, not affecting the Company’s growth potential.

The methods and assumptions used to determine the fair values were:

Customer portfolio

The customer portfolio was valued using the MEEM method (“Multi-period Excess Earnings Method”), which is based on a discounted cash flow calculation of future economic benefits attributable to the customer base, net of eliminated liabilities for contributions involving its generation. In order to estimate the remaining useful life of the customer portfolio, an analysis of the average length of customer relationships was conducted using a churn method.

The purpose of the useful life analysis is to estimate a survival curve that anticipates future churn rates in relation to the existing customer base. The so-called Iowa curves were used as an approximation to the customer survival curve. The fair value allocated to the customer portfolio on the acquisition date was R$2,523,000, which will be amortized over 7.77 years on average.

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Brand

The fair value of “GVT” brand was determined through the "relief-from-royalty” method. This method measures the value of the asset by capitalizing the royalties saved by owning intellectual property. In other words, the owner of the brand profits from owning the intangible asset, rather than having to pay royalties for its use. The royalties saved were determined by applying a market royalty rate (expressed as a percentage of revenue) to the future expected revenues from the sale of the product or service associated with the intangible asset. The market royalty rate, normally expressed as a percentage of net revenue, is the rate a knowledgeable willing owner would charge a knowledgeable willing user for use of an asset it owns in an arm’s length transaction. The fair value allocated to the brand on the acquisition date was R$59,000, which will be amortized over 1.5 years.

Contingent Consideration

As part of the Stock Purchase Agreement and Other Covenants executed by the Company and Vivendi for the acquisition of all GVTPart-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 amounts deposited with the courts.

If GVT succeeds in receiving (being reimbursed, refunded 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 is R$344,217, recorded in the Company’s noncurrent liabilities as “Loans, Financing and Debentures” (Note 21), which is subject to monthly monetary adjustments based on the Selic rate.

Fair value of contingent liabilities

According to IFRS 3 (R) / CPC 15 (R1) - Business Combinations, the acquirer must recognize, on the acquisition date, contingent liabilities assumed in a business combination, even if it is not probable that cash outflows will be required to settle the obligation, as long as it is a present obligation arising from past events and its fair value can be measured reliably.

In compliance with these requirements, contingent liabilities were recognized in this acquisition at a fair value, which were determined considering the expected cash outflow required to settle the obligation on the acquisition date (Note 19).

Nature	12/31/16	12/31/15	Aquisition Date
Tax	536,059	501,800	461,548
Labor	33,626	39,188	35,955
Civil	8,774	7,759	7,799
Regulatory	-	8,152	7,346
Total	**578,459**	**556,899**	**512,648**

Other information

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

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5) CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	12/31/16	12/31/15	12/31/16	12/31/15
Cash and banks	189,445	201,294	198,369	233,742
Short-term investments	4,486,182	4,005,301	4,906,741	5,103,103
Total	**4,675,627**	**4,206,595**	**5,105,110**	**5,336,845**

Highly liquid short-term investments basically comprise Bank Deposit Certificates (CDB) and Repurchase Agreements kept at first-tier financial institutions, pegged to the Interbank Deposit Certificate (CDI) rate variation. Revenues generated by these investments are recorded as financial income (expenses).

6) TRADE ACCOUNTS RECEIVABLE, NET

	Company		Consolidated	
	12/31/16	12/31/15	12/31/16	12/31/15
Billed amounts	6,077,768	5,605,057	6,939,909	6,959,513
Unbilled amounts	1,898,630	1,490,470	1,930,708	2,111,746
Interconnection amounts	1,333,595	1,531,352	1,345,471	1,555,480
Amounts from related parties (Note 29)	177,741	241,233	190,906	206,957
Gross accounts receivable	**9,487,734**	**8,868,112**	**10,406,994**	**10,833,696**
Estimated impairment losses	(1,004,512)	(1,650,112)	(1,399,895)	(2,217,926)
Total	**8,483,222**	**7,218,000**	**9,007,099**	**8,615,770**
Current	8,282,685	7,000,379	8,701,688	8,285,319
Noncurrent	200,537	217,621	305,411	330,451

Consolidated balances of noncurrent trade accounts receivable include:

- R$143,265 at December 31, 2016 (R$217,621 at December 31, 2015), relating to the business model of resale of goods to legal entities, receivable within 24 months. At December 31, 2016, the impact of the present-value adjustment was R$32,920 (R$59,378 at December 31, 2015).

- R$104,874, at December 31, 2016, (R$112,830 at December 31, 2015), relating 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 finance lease. At December 31, 2016, the impact of the present-value adjustment was R$3,005 (R$3,671 at December 31, 2015).

- R$57,272, at December 31, 2016, net of the present value adjustment of R$10,268, relating to the portion of accounts receivable arising from negotiations on the bankruptcy process of companies from the OI group.

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

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	Consolidated	
	12/31/16	12/31/15
Present value of accounts receivable	608,379	574,534
Deferred financial income	3,005	3,671
Nominal amount receivable	**611,384**	**578,205**
Estimated impairment losses	(344,738)	(306,443)
Net amount receivable	**266,646**	**271,762**
Current	161,772	158,932
Noncurrent	104,874	112,830

At December 31, 2016, the aging list of gross trade accounts receivable relating to "Soluciona TI" product is as follows:

	Consolidated	
	Nominal amount receivable	Present value of accounts receivable
Falling due within one year	338,327	338,327
Falling due between one year and five years	273,057	270,052
Total	**611,384**	**608,379**

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

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

	Company	Consolidated

	12/31/16	12/31/15	12/31/16	12/31/15
Falling due	6,392,442	5,186,776	6,841,752	6,158,130
Overdue – 1 to 30 days	1,025,630	949,131	1,073,568	1,082,139
Overdue – 31 to 60 days	309,210	323,882	322,485	375,908
Overdue – 61 to 90 days	225,132	214,337	227,010	324,985
Overdue – 91 to 120 days	110,813	93,826	105,048	103,876
Overdue – over 120 days	419,995	450,048	437,236	570,732
Total	**8,483,222**	**7,218,000**	**9,007,099**	**8,615,770**

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

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

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	Company	Consolidated
Balance at 12/31/14	**(1,313,956)**	**(1,619,316)**
Supplement to estimated losses (Note 25)	(1,529,171)	(1,819,712)
Reversal of estimated losses (Note 25)	512,355	589,037
Write-off due to use	680,660	956,001
Business combination (Note 4)	-	(323,936)
Balance at 12/31/15	**(1,650,112)**	**(2,217,926)**
Supplement to estimated losses (Note 25)	(1,667,359)	(1,843,775)
Reversal of estimated losses (Note 25)	441,617	495,554
Write-off due to use	2,032,062	2,166,252
Merger (Note 1c)	(160,720)	-
Balance at 12/31/16	**(1,004,512)**	**(1,399,895)**

7) INVENTORIES, NET

	Company		Consolidated	
	12/31/16	12/31/15	12/31/16	12/31/15
Materials for resale (1)	335,281	550,283	377,465	594,888
Materials for consumption	75,086	48,562	77,732	53,275
Other inventories	7,892	7,809	7,892	7,809
Gross total	**418,259**	**606,654**	**463,089**	**655,972**
Estimated losses from impairment or obsolescence	(50,108)	(48,390)	(52,676)	(52,341)
Total	**368,151**	**558,264**	**410,413**	**603,631**

(1) This includes, among others, 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)**
Supplement to estimated losses	(29,762)	(32,639)

Reversal of estimated losses	27,273	28,784
Balance at 12/31/15	**(48,390)**	**(52,341)**
Supplement to estimated losses	(24,943)	(29,755)
Reversal of estimated losses	23,225	29,420
Balance at 12/31/16	**(50,108)**	**(52,676)**

Additions and reversals of estimated impairment losses and inventory obsolescence are included in cost of goods sold (Note 25).

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8) DEFERRED TAXES AND TAXES RECOVERABLE

a) Taxes recoverable

	Company		Consolidated	
	12/31/16	12/31/15	12/31/16	12/31/15
State VAT (ICMS) (1)	2,317,739	1,866,777	2,329,159	2,063,159
Income and social contribution taxes recoverable (2)	829,160	267,238	830,549	301,714
Withholding taxes and contributions (3)	131,915	132,442	157,371	293,065
PIS and COFINS	125,273	108,758	148,759	133,925
Fistel, INSS, ISS and other taxes	22,775	126,806	38,236	139,082
Total	**3,426,862**	**2,502,021**	**3,504,074**	**2,930,945**
Current	2,952,622	2,164,544	3,027,230	2,521,292
Noncurrent	474,240	337,477	476,844	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 that were cancelled subsequently; for the rendering of services; tax substitution; and tax rate difference; among others. Noncurrent consolidated amounts include credits arising from the acquisition of property and equipment of R$370,770 and R$319,925 on December 31, 2016 and 2015, respectively.

(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 short-term investments, interest on equity and others, which are used as deduction in operations for the period and social contribution tax withheld at

source on services provided to public agencies.

b) Deferred taxes

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

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

	Company							
	Balances at 12/31/14	Income statement	Comprehensive income	Other	Balances at 12/31/15	Income statement	Comprehensive income	Other
Deferred tax assets (liabilities)								
Income and social contribution taxes on tax losses (1)	70,164	(70,164)	-	-	-	1,376	-	-
Merged tax credit (2)	(337,535)	-	-	-	(337,535)	-	-	-
Income and social contribution taxes on temporary differences (3)								
Provisions for legal, labor, tax civil and regulatory contingencies	1,454,349	226,667	-	-	1,681,016	257,288	-	-
Trade accounts payable and other provisions	436,799	98,202	-	-	535,001	6,702	-	-
Customer portfolio and trademarks	292,780	(36,724)	-	-	256,056	(62,660)	-	-
Estimated losses on impairment of accounts receivable	303,932	65,242	-	-	369,174	(82,284)	-	-
	170,731	(599)	-	-	170,132	(10,561)	-	-

Estimated losses from modems and other P&E items								
Pension plans and other post-employment benefits	150,148	14,949	(138,933)	-	26,164	1,780	80,459	-
Profit sharing	145,059	(56,115)	-	-	88,944	31,004	-	-
Provision for loyalty program	31,508	1,096	-	-	32,604	(13,492)	-	-
Accelerated accounting depreciation	15,375	(4,510)	-	-	10,865	13,168	-	-
Estimated impairment losses on inventories	10,014	(650)	-	-	9,364	(11,757)	-	-
Derivative financial instruments	(74,930)	5,673	117,168	-	47,911	2,891	(1,633)	-
Licenses	(987,896)	(216,330)	-	-	(1,204,226)	(216,330)	-	-
Effects of goodwill generated in the merger of Vivo Part.	(715,538)	(94,062)	-	-	(809,600)	(54,720)	-	-
Goodwill from Vivo Part.	(670,716)	(167,202)	-	-	(837,918)	(167,202)	-	-
Goodwill from GVT Part.	-	-	-	-	-	(522,228)	-	-
Technological Innovation Law	(256,454)	63,308	-	-	(193,146)	52,206	-	-
Income and social contribution taxes on other temporary differences (5)	2,914	(5,831)	636	1,524	(757)	59,426	(28)	(1,516)
Total deferred tax assets (liabilities), noncurrent	**40,704**	**(177,050)**	**(21,129)**	**1,524**	**(155,951)**	**(715,393)**	**78,798**	**(1,516)**
Deferred tax assets	**3,258,084**				**3,535,671**			
Deferred tax liabilities	**(3,217,380)**				**(3,691,622)**			
Deferred tax assets (liabilities), net	**40,704**				**(155,951)**			

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	Consolidated							
	Balances at 12/31/14	Income statement	Business combination (4)	Comprehensive income	Other	Balances at 12/31/15	Income statement	Comprehen inc
Deferred tax assets (liabilities)								
Income and social contribution taxes on tax losses (1)	93,546	(67,027)	-	-	-	26,519	(12,448)	
Merged tax credit (2)	(337,535)	-	-	-	-	(337,535)	-	
Income and social contribution taxes on temporary differences (3)								
Provisions for legal, labor, tax civil and regulatory contingencies	1,459,838	244,659	249,739	-	-	1,954,236	276,100	
Trade accounts payable and other provisions	501,957	134,726	50,441	-	-	687,124	(10,001)	
Estimated losses on impairment of accounts receivable	315,072	21,114	110,832	-	-	447,018	(88,213)	
Customer portfolio and trademarks	292,780	50,327	-	-	-	343,107	(30,015)	
Estimated losses from modems and other P&E items	172,744	1,855	120,346	-	-	294,945	(10,268)	
	150,148	12,647	-	(136,510)	-	26,285	1,633	80

Pension plans and other post-employment benefits								
Profit sharing	145,829	(62,501)	22,870	-	-	106,198	19,058	
Provision for loyalty program	31,508	1,096	-	-	-	32,604	(13,492)	
Accelerated accounting depreciation	15,375	229,705	(234,215)	-	-	10,865	13,168	
Estimated impairment losses on inventories	10,893	(186)	-	-	-	10,707	1,392	
Derivative financial instruments	(75,240)	(201,219)	218,699	117,168	-	59,408	2,358	(1,
Licenses	(987,896)	(216,330)	-	-	-	(1,204,226)	(216,330)	
Effects of goodwill generated in the acquisition of Vivo Part.	(715,538)	(94,062)	-	-	-	(809,600)	(54,720)	
Goodwill from Vivo Part.	(670,716)	(167,202)	-	-	-	(837,918)	(167,202)	
Goodwill from GVTPart.	-	-	-	-	-	-	(522,228)	
Technological Innovation Law	(256,454)	63,308	-	-	-	(193,146)	52,206	
Income and social contribution taxes on other temporary differences (5)	(1,494)	15,383	78,950	636	1,524	94,999	(2,415)	
Total deferred tax assets (liabilities), noncurrent	**144,817**	**(33,707)**	**617,662**	**(18,706)**	**1,524**	**711,590**	**(761,417)**	**78**
Deferred tax assets	**3,366,604**					**4,153,054**		
Deferred tax liabilities	**(3,221,787)**					**(3,441,464)**		
Deferred tax assets (liabilities), net	**144,817**					**711,590**		

(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, where tax use complies with the limit set forth in tax legislation.

(3) This refers to amounts that will be realized upon payment of provisions, effective impairment losses for trade accounts receivable, or realization of inventories, as well as upon reversal of other provisions.

(4) These refer to deferred taxes arising from business combinations, R$610,873 being of GVTPart. (Note 4) and R$6,789 of TGLog.

(5) These refer to deferred taxes arising from other temporary differences, such as deferred income, renewal of licenses burden, subsidy on the sale of mobile phones, among others.

At December 31, 2016, deferred tax credits (income and social contribution tax losses) were not recognized in direct and indirect subsidiaries' accounting records, in the amount of R$2,993 (R$481,203 at December 31, 2015), as it is not probable that future taxable profits shall be available for these subsidiaries to benefit from such tax credits.

Expected realization of deferred taxes, net, noncurrent.

The amounts are based on projections subject to change in the future.

Year	Company	Consolidated
2017	1,673,558	1,756,960
2018	518,703	535,240
2019	255,754	259,468
2020	317,136	320,714
2021	322,683	326,265
2022 onwards	(3,176,529)	(3,171,150)
Total	(88,695)	27,497

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9) 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 where the likelihood of loss was analyzed by the Company and its subsidiaries, grounded on the opinion of its legal advisors as a probable, possible or remote loss.

	Company		Consolidated	
	12/31/16	12/31/15	12/31/16	12/31/15
Judicial deposits				
Tax	3,698,966	2,900,671	3,758,787	3,374,764
Labor	1,040,635	1,062,118	1,051,430	1,128,935
Civil and regulatory	1,384,533	1,030,130	1,385,605	1,114,770
Total	**6,124,134**	**4,992,919**	**6,195,822**	**5,618,469**
Garnishments	152,948	122,913	155,744	134,994
Total	**6,277,082**	**5,115,832**	**6,351,566**	**5,753,463**
Current	302,349	235,343	302,424	235,343
Noncurrent	5,974,733	4,880,489	6,049,142	5,518,120

On December 31, 2016, the Company and its subsidiaries had a number of tax-related judicial deposits in the consolidated amount of R$3,758,787 (R$3,374,764 at December 31, 2015). In Note 19, we provide further details on issues arising from the most significant judicial deposits.

A brief description of the main tax-related judicial deposits is as follows:

• <u>Contribution tax on gross revenue for Social Contribution Tax on Gross Revenue for Social Integration Program (PIS) and for Social Contribution Tax on Gross Revenue for Social Security Financing (COFINS)</u>

The Company and TData are parties to legal proceedings 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 relating to changes in rates and increase in tax bases introduced by Law No. 9718/98.

At December 31, 2016, the consolidated balance of judicial deposits amounted to R$35,570 (R$35,272 at December 31, 2015).

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

The Company is a party to legal proceedings 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 December 31, 2016, the consolidated balance of judicial deposits amounted to R$176,557 (R$164,482 at December 31, 2015).

- Telecommunications Inspection Fund (FISTEL)

The Company and TData are parties to legal proceedings involving the collection of the Installation Inspection Fee ("TFI") on the renewal of licenses granted and the radio base stations, mobile stations and radio links held by ANATEL. Considering that the extension would be the taxable event of the TFI and the mobile stations, although third-party ownership, are also subject to TFI.

At December 31, 2016, the consolidated balance of judicial deposits amounted to R$1,095,789 (R$1,008,771 at December 31, 2015).

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- 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 December 31, 2016, the consolidated balance of judicial deposits amounted to R$73,848 (R$67,996 at December 31, 2015).

- Corporate Income Tax (IRPJ) and Social Contribution Tax (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); (iii) underpaid IRPJ amounts; and (iv) right to write off the monthly amortization of goodwill arising from the acquisition of GVTPart. by Vivendi on deducted IRPJ and CSLL amounts (Note 4).

At December 31, 2016, the consolidated balance of judicial deposits amounted to R$449,988 (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 TData, as union members, made court deposits relating to that contribution.

At December 31, 2016, the consolidated balance of judicial deposits amounted to R$1,053,867 (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%); (iv) premiums; and (v) social security contribution collection (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 December 31, 2016, the consolidated balance of judicial deposits amounted to R$128,458 (R$118,425 at December 31, 2015).

- Tax on net income (ILL)

The Company was party to legal proceedings in order to uphold 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.

At December 31, 2015, the consolidated balance of judicial deposits amounted to R$58,446.

On June 30, 2016, the amount of R$45,843 of the judicial deposit now bound was converted into income by the Federal Government and the amount of R$14,244 was withdrawn by the Company.

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- 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 the 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 December 31, 2016, the consolidated balance of judicial deposits amounted to R$456,977 (R$425,737 at December 31, 2015).

- State Value-Added Tax (ICMS)

The Company is party to legal proceedings 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, activation, availability and use of services, as well as supplementary services and additional facilities; (v) right to tax credit from the acquisition of goods for fixed assets and electric energy; (vi) ICMS on activation cards for pre-paid services; (vii) disallowance of ICMS tax credit relating to agreement 39; and (viii) assignment of payment of ICMS relating to a portion of pay TV operations and telephony operations in prepaid mode.

At December 31, 2016, the consolidated balance of judicial deposits amounted to R$212,652 (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 December 31, 2016, the consolidated balance of judicial deposits amounted to R$75,081 (R$64,778 at December 31, 2015).

10) PREPAID EXPENSES

	Company		Consolidated	
	12/31/16	12/31/15	12/31/16	12/31/15
Advertising and publicity	258,212	228,672	258,212	228,672
Insurance	39,008	24,035	39,558	28,367
Rental	19,276	43,022	19,276	43,022
Financial charges	1,875	11,120	1,875	11,120
Software and networks maintenance	10,204	7,196	12,283	26,478
Taxes and other	43,273	31,912	48,318	49,396
Total	**371,848**	**345,957**	**379,522**	**387,055**
Current	336,508	317,325	343,092	356,446
Noncurrent	35,340	28,632	36,430	30,609

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11) OTHER ASSETS

	Company		Consolidated	
	12/31/16	12/31/15	12/31/16	12/31/15
Advances to employees and suppliers	81,325	72,635	83,634	81,615
Related-party receivables (Note 29)	311,633	288,702	250,679	162,308
Receivables from suppliers	96,065	118,153	99,166	120,091
Subsidy on handset sales	30,491	42,896	30,491	42,896
Surplus from post-employment benefit plans (Note 32)	8,838	8,391	9,041	8,724
Vivendi repayment clauses 2.2.4 and 2.2.5 of SPA (Note 4)	9,739	84,598	9,739	84,598
Other amounts receivable	10,652	42,971	12,910	51,199
Total	**548,743**	**658,346**	**495,660**	**551,431**
Current	495,380	603,118	440,095	488,632
Noncurrent	53,363	55,228	55,565	62,799

12) INVESTMENTS

a) <u>Information on investees</u>

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

<u>TData:</u> Wholly-owned subsidiary of the Company and headquartered 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 networks, consulting services regarding telecommunications solutions and related activities, and designing, implementing and installing telecommunication-related projects; selling and leasing telecommunications equipment, products and services, among others.

On October 28, 2015, TData acquired controlling interest in Telefônica Transportes e Logística Ltda (“TGLog”), for R$15,811.

GVTPart: A wholly-owned subsidiary of the Company up to March 31, 2016. GVTPart. was 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. GVTPart. was merged into the Company on April 1, 2016 (Note 1c).

POP: The Company's direct subsidiary on April 1, 2016, is engaged in the performance of activities related to information technology, internet and any other networks, including access, production, distribution and display of own or third-party content; hosting services and the commercial operation of websites and portals; handling, provision and storage of information and data; sale of software, hardware, telecommunication equipment and electronics; development, licensing and maintenance of information systems and routines; development of electronic commerce; creation and administration of own and/or third-party databases; sale of publicity and advertising and, banner vehicles; and holding interest in other companies as member or shareholder, and may also form consortia and/or other forms of association. Until March 31, 2016, POP was controlled by GVT (Note 1c).

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

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

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

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

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

	At 12/31/16					At 12/31/15				
	Wholly-owned subsidiaries		Jointly-controlled subsidiaries			Wholly-owned subsidiaries		Jointly-controlled subsidiaries		
	TData	POP	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	1,414,039	27,407	15	20,337	145,121	1,411,043	1,910,323	9	17,851	179,698
Noncurrent assets	362,195	52,016	-	12,879	-	409,595	9,329,733	-	11,824	-
Total assets	**1,776,234**	**79,423**	**15**	**33,216**	**145,121**	**1,820,638**	**11,240,056**	**9**	**29,675**	**179,698**
Current liabilities	633,631	49,535								