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

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

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

For the month of March, 2016

Commission File Number: 001-14475

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

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

Av. Eng° Luís Carlos Berrini, 1376 - 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

TELEFÔNICA BRASIL S.A.

QUARTERLY INFORMATION

DECEMBER 31, 2015

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The Shareholders, Board of Directors and Officers

Telefônica Brasil S.A.

São Paulo - SP

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Other matters

Statements of value added

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

Audit of prior year corresponding figures

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

São Paulo, February 19, 2016.

ERNST & YOUNG

Auditores Independentes S.S.

CRC-2SP015199/O-6

Cassio O. Barbosa

Accountant CRC-1SP269018/O-7

Héctor Ezequiel Rodríguez Padilla

Accountant CRC-1SP299427/O-9

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

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

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

		Company		Consolidated	
	Note	**12.31.15**	**12.31.14**	**12.31.15**	**12.31.1**
Net operating revenue	24	**34,003,769**	**32,993,687**	**40,286,815**	**34,999,96**
Cost of services and goods sold	25	(17,062,753)	(16,286,314)	(20,345,076)	(17,222,675
Gross profit		**16,941,016**	**16,707,373**	**19,941,739**	**17,777,29**
Operating income (expenses)		**(13,159,918)**	**(12,603,848)**	**(14,702,141)**	**(12,668,265**
Selling expenses	25	(10,801,148)	(10,403,171)	(12,005,477)	(10,466,725
General and administrative expenses	25	(1,887,878)	(1,773,582)	(2,142,459)	(1,803,803
Other operating income	26	503,944	482,788	538,239	510,62
Other operating expenses	26	(974,836)	(909,883)	(1,092,444)	(908,365
Operating income		**3,781,098**	**4,103,525**	**5,239,598**	**5,109,02**
Financial income	27	3,763,877	1,869,331	4,728,665	1,983,38
Financial expenses	27	(4,239,194)	(2,341,430)	(5,576,843)	(2,345,381
Equity pickup	12	748,526	742,628	2,036	6,94
Income before taxes		**4,054,307**	**4,374,054**	**4,393,456**	**4,753,97**
Income and social contribution taxes	28	(634,058)	562,605	(973,207)	182,68
Net income for the year		**3,420,249**	**4,936,659**	**3,420,249**	**4,936,65**
Basic and diluted earnings per common share (in R$)	29	2.15	4.12		
Basic and diluted earnings per preferred share (in R$)	29	2.37	4.53		

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

		Capital reserves			
	Capital	**Premium on acquisition of interest**	**Special goodwill reserve**	**Other capital reserves**	**Trea s**
Balances at December 31, 2013	**37,798,110**	**(70,448)**	**63,074**	**2,735,930**	**(112**
Payment of additional dividend for 2013	-	-	-	-	
Prescribed equity instruments	-	-	-	-	
DIPJ adjustment - Tax incentives	-	-	-	-	
Other comprehensive income (loss)	-	-	-	-	
Net income for the year	-	-	-	-	
Allocation of income:					
Legal reserve	-	-	-	-	
Interim interest on equity	-	-	-	-	
Additional proposed dividends	-	-	-	-	
Balances at December 31, 2014	**37,798,110**	**(70,448)**	**63,074**	**2,735,930**	**(112**
Payment of additional dividend for 2014	-	-	-	-	
Prescribed equity instruments	-	-	-	-	
DIPJ adjustment - Tax incentives	-	-	-	-	
Cancelation of treasury shares according to the Special Shareholders' Meeting (SGM) of 3/12/15	-	-	-	(112,107)	11
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.	-	-	-	-	(87
Premium on acquisition of equity interest by TData	-	(4,940)	-	-	
Other comprehensive income (loss)	-	-	-	-	
Net income for the year	-	-	-	-	
Allocation of income:					
Legal reserve	-	-	-	-	
Interim interest on equity	-	-	-	-	
Interim dividends	-	-	-	-	
Expansion and Modernization Reserve	-	-	-	-	
Additional proposed dividends	-	-	-	-	
Balances at December 31, 2015	**63,571,416**	**(75,388)**	**63,074**	**1,372,683**	**(87**

At 12.31.15
Outstanding shares (in thousands)
Equity value of Company shares

At 12.31.14
Outstanding shares (in thousands)
Equity value of Company shares

TELEFÔNICA BRASIL S.A.
Cash flow statements
Years ended December 31, 2015 and 2014

(In thousands of reais)

	Company		Consolidated	
	12.31.15	**12.31.14**	**12.31.15**	**12**
Total cash generated by operating activities	**7,548,893**	**8,485,411**	**9,897,205**	**9,3**
Expenses (revenues) not representing changes in cash	**12,266,042**	**10,900,855**	**15,638,355**	**12,0**
Income before taxes	4,054,307	4,374,054	4,393,456	4,7
Depreciation and amortization	5,657,646	5,273,256	6,814,951	5,2
Foreign exchange gains (losses) on loans	(49,847)	96,036	613,927	
Monetary gains (losses)	282,009	(2,437)	280,280	
Equity pickup	(748,526)	(742,628)	(2,036)	
Losses on write-off/sale of goods	45,545	39,662	66,029	
Provision for impairment - accounts receivable	1,016,816	832,184	1,230,675	8
Provision for (reversal) of trade accounts payable	288,769	(198,477)	265,072	(23
Provision (write-off and reversals of) for impairment - inventories	(36,012)	(25,458)	(35,692)	(2
Pension plans and other post-retirement benefits	35,239	33,690	36,666	
Provisions for tax, civil, labor and regulatory contingencies	877,645	546,191	993,508	5
Interest expense	785,852	662,944	919,908	6
Provision for divestiture	51,822	10,931	58,396	
Provision for customer loyalty program	3,223	907	3,223	
Other	1,554	-	(8)	
Increase or decrease in operating assets and liabilities:	**(4,717,149)**	**(2,415,444)**	**(5,741,150)**	**(2,67**
Trade accounts receivable	(1,573,764)	(1,791,735)	(1,841,659)	(1,85
Inventories	(63,764)	36,556	(81,820)	
Taxes recoverable	(432,587)	(219,466)	(616,012)	(23
Prepaid expenses	88,621	61,296	111,288	
Other current assets	4,883	(12,862)	(104,706)	
Other noncurrent assets	33,351	33,062	(159,315)	
Personnel, social charges and benefits	(164,768)	258,834	(169,220)	2
Trade accounts payable	175,444	496,976	103,346	5
Taxes, charges and contributions	(21,610)	618,024	78,436	6
Interest paid	(824,952)	(800,302)	(949,386)	(80
Income and social contribution taxes paid	-	(520,740)	(397,070)	(78
Other current liabilities	(1,076,328)	(531,236)	(992,525)	(53
Other noncurrent liabilities	(861,675)	(43,851)	(722,507)	(4
Total cash used 9n investing activities	**(18,601,377)**	**(7,333,582)**	**(14,625,707)**	**(7,60**
Acquisition of property, plant and equipment and intangible assets	(5,688,877)	(7,504,464)	(6,792,895)	(7,53
Proceeds from disposal of property, plant and equipment	19,688	19,856	19,902	
Cash paid for acquisition of companies, net of cash acquired	(8,903,954)	-	(8,528,986)	
Capital increase in subsidiary	(5,827,064)	-	-	
Redemption of (investiments in) investments in guarantee	-	4,567	-	

Redemption of (investment in) judicial deposits	13,224	(105,228)	(6,431)	(10
Dividends and interest on equity received	1,102,911	251,687	8	
Net payment of derivative contracts on acquisition of GVT	682,695	-	682,695	
Total cash generated by (used in) financing activities	**11,423,775**	**(3,627,824)**	**5,372,658**	**(3,62**
Payment of loans, financing and debentures	(2,279,518)	(1,563,272)	(8,710,567)	(1,56
Loans and debentures raised	1,115,210	318,573	1,285,210	3
Payment net of derivative agreements	336,873	63,741	546,805	
Payment for reverse split of shares	-	(245)	-	
Dividend and interest on equity paid	(3,678,665)	(2,446,621)	(3,678,665)	(2,44
Capital increase	16,107,285	-	16,107,285	
Direct capital increase costs	(89,605)	-	(89,605)	
Payment to dissenters' rights - shareholders	(87,805)	-	(87,805)	
Increase (decrease) in cash and cash equivalents	**371,291**	**(2,475,995)**	**644,156**	**(1,85**
Cash and cash equivalents at the beginning of the year	**3,835,304**	**6,311,299**	**4,692,689**	**6,5**
Cash and cash equivalents at the end of the year	**4,206,595**	**3,835,304**	**5,336,845**	**4,6**
Changes in cash and cash equivalents for year	**371,291**	**(2,475,995)**	**644,156**	**(1,85**

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

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

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

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

Telefônica Brasil S. A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

(In thousands of reais, unless otherwise stated)

1) OPERATIONS

a) Background information

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

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

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

b) Operations

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

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

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

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

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

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

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

Telefônica Brasil S. A.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

(In thousands of reais, unless otherwise stated)

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

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

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

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

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

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

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

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

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

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

Piauí and Rio Grande do Norte								
Region 2								
Paraná (except Sector 20) and Santa Catarina	-	Dec/29	Apr/28 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Paraná sector 20 (5)	-	Dec/29	Apr/28 (1)	-	Apr/23	-	Apr/23	Oct/27
Rio Grande do Sul (except sector 30)	-	Dec/29	Dec/22 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Rio Grande do Sul (sector 30) (11)	-	Dec/29	-	-	Apr/23	Dec/22 (2)	Apr/23	Oct/27
Distrito Federal	-	Dec/29	Jul/21 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Goiás and Tocantins	-	Dec/29	Oct/23 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Goiás (sector 25) (7)	-	Dec/29	-	-	Apr/23	Dec/22 (2)	Apr/23	Oct/27
Mato Grosso	-	Dec/29	Mar/24 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Mato Grosso do Sul (except sector 22)	-	Dec/29	Sept/24 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Mato Grosso do Sul (sector 22) (6)	-	Dec/29	-	-	Apr/23	Dec/22 (2)	Apr/23	Oct/27
Rondônia	-	Dec/29	Jul/24 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Acre	-	Dec/29	Jul/24 (1)	Apr/23	Apr/23	Apr/23 (3)	Apr/23	Oct/27
Region 3								
São Paulo	Oct/27(4)	Dec/29	Ago/23 (1)	-	Apr/23	Apr/23 (3)	Apr/23 (9)	Oct/27
São Paulo (Ribeirão Preto.	Oct/27(4)	Dec/29	Jan/24 (1)	-	Apr/23	Apr/23 (3)	Apr/23	Oct/27

Guatapará and Bonfim Paulista)								
São Paulo (Franca area and region)	Oct/27(4)	Dec/29	Ago/23 (1)	-	Apr/23	Apr/23 (3)	Apr/23	Oct/27
São Paulo (sector 33) (8)	-	Dec/29	-	-	Apr/23	Dec/22 (2)	Apr/23	Oct/27

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

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

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

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

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

(6) Mato Grosso do Sul – Sector 22 of PGO – city of Paranaíba.

(7) Goiás – Sector 25 of PGO – cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão.

(8) São Paulo - sector 33 of PGO - cities of Altinópolis, Aramina, Batatais, Brodosqui, Buritizal, Cajuru, Cássia dos Coqueiros, Colômbia, Franca, Guaíra, Guará, Ipuã, Ituverava, Jardinópolis, Miguelópolis, Morro Agudo, Nuporanga, Orlândia, Ribeirão Corrente, Sales de Oliveira, Santa Cruz da Esperança, Santo Antônio da Alegria and São Joaquim da Barra.

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

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

(11) Rio Grande do Sul – sector 30 – cities of Pelotas, Morro Redondo, Capão do Leão and Turuçu.

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

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

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

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

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

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

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

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

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

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

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

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

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

d) Corporate Restructuring

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

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

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

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

2) BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1) Statement of Compliance

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

used by management in its administration.

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

2.2) Basis of preparation and presentation

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

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

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

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

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

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

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

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

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

Annual improvements - 2010-2012 cycle:

- *IFRS 2 Share Based Payments:* This amendment changed the definition of vesting relating to the purchase conditions and its implementation is effective beginning on or after July 1, 2014. The Company does not believe that these amendments may significantly impact its financial position.

- *IFRS 3 Business Combinations:* This amendment changed the subsequent accounting for contingent consideration in a business combination. Contingent consideration on acquisition of a business that is not classified as equity is subsequently measured at fair value through profit or loss, whether or not included in the scope of IFRS 9 Financial Instruments. This change is effective for new business combinations after July 1, 2014. The Company considered the application of these changes to the business combinations occurred upon acquisition of GVTPart. (Note 4).

- *IFRS 8 Operating Segments:* These amendments are related to: (i) the aggregation of operating segments, which can be combined / aggregated whether they are in accordance with the criteria of the rule, in other words, if the segments have similar economic characteristics and are similar in other qualitative aspects. If they are combined, the entity shall disclose the economic characteristics used to assess whether the segments are similar; and (ii) the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

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

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- *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets:* The amendments to IAS 16.35 (a) and IAS 38.80 (a) clarify that a revaluation can be made as follows: i) adjust the recorded gross amount of asset to market value or, ii) determine the market value and proportionally adjust the recorded gross amount so that the resulting recorded amount is equal to the market value. IASB also clarifies that the accumulated depreciation/amortization is the difference between the recorded gross amount and the asset's book value (i.e., the recorded gross amount – accumulated depreciation/amortization = book value). The amendment to IAS 16.35 (b) and IAS 38.80 (b) clarifies that the accumulated depreciation/amortization is eliminated so that the recorded gross amount and the book value is equal to the market value. Amendments become effective as from July 1, 2014 on a retrospective basis. Considering that the revaluation of fixed or intangible assets is not allowed in Brazil, the application of the amendments to this amendment did not have any impact on the Company's financial statements.

- *IAS 24 Related Party Disclosures:* The amendment to this standard clarifies that a management entity of other entity that provides key personnel for provision of management services is a subject related to related party disclosures. Additionally, an entity that used a management entity shall disclose the expenses incurred with management services. Amendments become effective as from July 1, 2014 on a retrospective basis. The application of this amendment did not affect significantly the Company's related party disclosures.

Annual improvements - 2011-2013 cycle:

- *IFRS 3 Business Combinations:* The amendments to this standard clarify that joint arrangements (and not only joint ventures) are not included in the application of IFRS 3. The amendments are effective on or after July 1, 2014 on a prospective basis. The application of these amendments did not have any significant impact on the Company's consolidated financial statements.

- *IFRS 13 Fair Value Measurement:* This amendment is related to the application of the exception to financial assets portfolio, financial liabilities and other contracts. The amendment is effective as from July 1, 2014. The application of this amendments did not have a significant impact on the Company's consolidated financial statements.

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

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

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Standards and Amendments to Standards	Effective as from
Annual improvements to IFRS Cycle 2012 to 2014 include:	
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, amended	
IFRS 7 Financial Instruments: Disclosures (Financial Instruments: Disclosures) amended.	January 1, 2016
IAS 19 Employee Benefits, amended (Discount rate: regional market issue)	
IAS 34 Interim Financial Reporting, amended.	
IAS 1 Disclosure Initiative, amended.	January 1, 2016
IFRS 10. 12 and IAS 28 Investment Entities: Applying the Consolidation Exception, amended.	January 1, 2016
IFRS 11 Accounting for Acquisitions of Interest in Joint Operations, amended.	January 1, 2016
IFRS 14 Regulatory Deferral Account, issued.	January 1, 2016
IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization. amended.	January 1, 2016
	January 1, 2016

Amendments to IAS 27 Equity Method in Separate Financial Statements, amended.	
IFRS 9 Financial Instruments, issue of final draft	January 1, 2018
IFRS 15 Revenue from Contracts with Customers, issued.	January 1, 2018
IFRS 16 Leases, issued.	January 1, 2019

The Company does not early adopt any pronouncement, interpretation or amendment that has been issued, whose application is not compulsory. Based on the analyses made to date, the Company estimates that the adoption of most of these standards, amendments and improvements will not have a significant impact on the consolidated financial statements in the initial period of application. However, IFRS 15 is likely to have an impact in the timing and amount of revenue recognition in connection with certain bundled revenue transactions. The Group is currently assessing the impact of the application of this standard. Also, the changes introduced by IFRS 9 will affect financial instruments and transactions with financial instruments carried out on or after January 1, 2018. In addition to this, IFRS 16 requires a company to report on the balance sheet lease assets and lease liabilities for all leases (other than short-term leases and leases of low-value assets). Therefore, changes introduced by IFRS 16 are likely to have a significant impact in the Company's financial statements.

2.3) Basis for consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries at December 31, 2015 and 2014. 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 these returns through the power exercised in relation to the investee.

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

Generally, there is the assumption that the majority of voting rights results 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 in relation to an investee, including: i) the contractual agreement with other parties holding voting rights of the investee; ii) rights originated in contractual agreements; and iii) voting rights and potential voting rights of the Company.

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The Company evaluates whether it exercises control or not of an investee if facts and 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 the subsidiary and ends when the Company stops exercising the referred to 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 until the date the company no longer exercises control over the subsidiary.

At December 31, 2015 and 2014, the Company held interest in the following companies:

		% of interest		
Investees	Type of Investment	At 12/31/2015	At 12/31/2014	Country
Telefônica Data S.A. ("TData")	Wholly-owned subsidiary	100.00%	100.00%	
GVT Participações S.A. ("GVTPart.") (Note 4)	Wholly-owned subsidiary	100.00%	-	
Aliança Atlântica Holding B.V. ("Aliança")	Jointly controlled subsidiary	50.00%	50.00%	
Companhia AIX de Participações ("AIX")	Jointly controlled subsidiary	50.00%	50.00%	
Companhia ACT de Participações ("ACT")	Jointly controlled subsidiary	50.00%	50.00%	

Interests held in subsidiary or jointly-controlled entity are 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.

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 qualified 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 sufficient amounts to cover any losses and consider mainly the expected default (Note 6).

c) Inventories

These are evaluated and presented at the average acquisition cost or by the 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 necessary to make the sale (Note 7).

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

d) Prepaid expenses

These are stated at amounts effectively disbursed referred to services contracted by not incurred yet. Prepaid expenses are allocated to P&L to the extent that related services are rendered and economic benefits obtained (Note 10).

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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 pickup 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 P&L from operations in investees.

When changes are directly recognized in the investees' equity, the Company will recognize its portion in variations occurred, as well 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.

After the equity method is applied, the Company determines whether there is 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 book value, and recognizes the amount in P&L.

When there is loss of significant influence over the investees, the Company evaluates and recognizes the investment, at this moment, at fair value. Any difference between the investees' book value by the time it loses significant influence and the fair value of the remaining investment and revenue from sale is recognized in P&L.

Upon consolidation, all asset and liability balances, revenues and expenses arising from transactions and interest held in equity between the Company and its subsidiaries were eliminated.

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

f) Property, plant and equipament, net

Property, plant and equipament 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 expensed, under the accrual method of accounting. When significant parts of fixed assets are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful life 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.

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

Depreciation is calculated by the straight-line method over the useful life of assets, at rates that take into account the estimated useful lives of assets based on technical analyses. The assets' residual values, useful life 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 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 book value of the asset) are recognized in the income statement in the year when the asset is written off.

Following is a brief description of the main fixed asset items, note 13:

- Switching equipment: This includes switching centers and control, 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 transmission means.

- 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.

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 life of intangible assets is 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 the 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 life is recognized in the income statement in the cost/expense category consistent with the function of the intangible assets.

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- 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 supportable. Otherwise, changes in useful life – from indefinite to finite - are made on a prospective manner. Goodwill generated upon investment acquisition is treated as intangible assets of 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 book value of the asset, and recognized in the income statement on disposal.

Following is a brief description of the key intangible asset items with finite useful lives, Note 14:

- *Software:* This includes licenses of software used for operational, commercial and administrative activities of the Company.

- Customer portfolio: This includes intangible assets acquired through business combination, recorded at fair value at acquisition date.

- Trademarks: These include intangible assets acquired through business combination, recorded at fair value at 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 at acquisition date.

h) Leases

Characterization of a contract as commercial leasing is based on substantive aspects related to use of an asset or specific assets, or still to the right of using a certain asset, on the date of beginning of its execution.

Finance lease agreements: By means of these agreements, the Company obtains substantially all risks and rewards referring to the property of the leased item. These are capitalized at the commencement of the lease at the fair value of the leased property 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 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.

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

- As lessee: 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 book value 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 13e).

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

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

Operational lease: These are lease agreements where lessor holds a significant portion of risks and rewards, whose effects are recognized in P&L for the year over the contractual term.

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i) Analysis of the recoverability of non- financial assets

The Company annually reviews the net book value 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 book value exceeds recoverable amount, a provision for impairment is recorded so as to adjust the net book value to the recoverable amount.

The recoverable amount of an asset or a cash generating unit 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 capital cost rate (The Capital Asset Pricing Model – CAPM) before taxes, which reflects the weighted average cost of capita and specific risks of the asset or cash-generating unit (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 interest 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.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

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 the asset's or CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor 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 that when circumstances indicate that the carrying value may be impaired. Where the recoverable amount is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

- Intangible assets: Intangible assets with indefinite useful life 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 value may be impaired.

- Determination of value in use: The key assumptions used to estimate value in use are:

Revenues: Revenue is projected considering the growth in customer base, the evolution of market revenue in view of GDP and the Company's share in this market.

Operating costs and expenses: Variable costs and expenses are projected in accordance with the dynamics of the customers base, and fixed costs are projected in line with the historical performance of the Company, as well as with revenue growth; and

Capital investments: Investments in capital goods were 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 management.

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The impairment test of the Company and subsidiary's fixed and intangible assets did not result in recognition of impairment losses for the years ended December 31, 2015 and 2014, since their estimated market value 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, measured at the acquisition-date fair value, and the fair value of any noncontrolling interests 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 proportionate share in the identifiable net assets of the acquiree. Costs directly attributable to the acquisition is 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 of a business combination in stages, the ownership interest previously held in the acquiree's capital is remeased 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 will be recognized at fair value on 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 transferred payment exceeding 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 the disposed 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.

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 fair value through profit or loss, loans and receivables, investments held to maturity, financial assets available for sale or 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.

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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 cost that are directly attributable to the acquisition of the financial asset.

Sales and purchases of financial assets that involve delivery of assets within a time frame established by regulation or in the marketplace concerned (regular way purchases) are recognized on the transaction date, i.e., the date on which the Company commits itself to purchasing or selling the asset.

The Company's consolidated financial assets include cash and cash equivalents, trade accounts receivable, listed and unlisted financial instruments and derivative financial instruments.

Subsequent measurement

Subsequent measurement of financial assets depends on their classification, which can be 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. 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. 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 P&L.

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 effective interest rate method, less impairment, where applicable. Amortized cost is calculated taking into account any discount or "premium" on acquisition and fees or costs incurred. Amortization of effective interest rate method is included in the financial income line in P&L.

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 rate 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 rate 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, 2015 and 2014.

Financial assets available for sale: These are non-derivative financial assets not classified as: (i) loans and receivables; (ii) investments held to maturity; or (iv) 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 rate method and gains or losses due to exchange variations on monetary assets, which are recognized directly in the income statement for the year.

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 (write-off):

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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 the financial asset.

k.2) Impairment of financial assets

The Company and its subsidiaries evaluate at 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 an 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 indication that the borrowing parties are going through significant financial hardship. The probability that they will go bankrupt or other financial reorganization, that there will be default or 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.

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.

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.

Financial instruments available for sale

The Company and its subsidiaries assess at the balance sheet date whether there is objective evidence that an investment is impaired.

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For investment in securities classified as available for sale, objective evidence include a significant and prolonged loss in fair value of investments, below their book value.

When there is evidence of impairment loss, the accumulated loss, measured by the difference between acquisition cost and the current fair value, less impairment loss are recognized directly in P&L, is reclassified from equity to P&L. Increases in their fair value after impairment are recognized directly in other comprehensive income.

As for debt securities classified as available for sale, impairment loss is determined based on the same criteria used for financial assets at amortized cost. However, the impairment amount recorded is the cumulative loss measured by the difference between amortized cost and the current fair value, less any impairment loss in the investment previously recognized in the income statements.

Subsequently, interest is computed at the effective interest rate used to discount future cash flows for impairment of asset book value. Interest income is recorded as financial income.

When, in a subsequent year, the fair value of a debt instrument increases, and this increase can be objectively related to an event occurred after the recognition of the impairment loss in the income statements, the impairment loss is not reversed.

k.3) 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 financial liabilities of the Company and its subsidiaries include trade accounts payable, loans and financing and derivative financial instruments.

Subsequent measurement

Measurement of financial liabilities depends on their classification, which can be 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 by the Company which do not meet the hedge accounting criteria set out by the corresponding standard.

In the years ended December 31, 2015 and 2014, the Company and its subsidiaries did not record any 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 rate 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 (write-off):

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

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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 of offsetting the amounts recognized and if there is the intention to offset or realize the asset and settle the liability simultaneously.

l) Derivative financial instruments and hedge accounting

The Company and its subsidiaries use derivative financial instruments, such as currency and interest rate swap to hedge against exchange variation 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, being 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.

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

At the inception of a hedge relationship, the Company and its subsidiaries formally designate and document the hedge relationship to which they wish to apply hedge accounting and 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 risk being hedged, the nature of the risks excluded from the hedge, the prospective statement of hedge effectiveness and how the entity will 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.

As for cash flow hedges, the hedge relationship documentation also includes the highly probable forecast nature of the transaction as well as the periods expected to transfer gains or losses arising from hedge instruments from equity to the income statement. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Company’s contracts are classified as cash flow hedges when they protect from changes in cash flows that are attributable to a particular risk associated to a recognized liability that may affect the result of operations, and as fair value hedges when they protect from changes in the fair value of an identified part of certain liabilities that are attributable to a particular risk and may affect the result of operations.

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 book value of the non-financial assets and liabilities.

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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 and its subsidiaries use forward exchange contracts to hedge against their exposure to the currency risk related to forecast future highly-probable transactions and firm commitments.

Fair value hedges

Fair value hedges meeting the recording 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 an adjustment exists and no later than when 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 profit or loss.

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.

Classification into 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 in excess of 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.

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

m) 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 the asset or liability.

The Company 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 economic best interest.

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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 other market participant that would also make best use of the asset.

The Company uses 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.

All assets and liabilities that are measured or disclosed at fair value in the financial statements are classified within the fair value hierarchy, as described below, based on the lowest level input that is significant to the overall fair value measurement:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is either directly or indirectly observable; and

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is not observable.

For assets and liabilities recurrently recognized in the financial statements, the Company determines whether there were transfers between the hierarchy level, revaluating the classification (based on 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 determined classes of assets and liabilities based on the nature, characteristics and risks of assets or liabilities and the fair value hierarchy level, as mentioned above.

For the year ended December 31, 2015, there were no transfers between Level 3 and Levels 1 and Level 2 fair value assessments.

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 of over 18 months to get ready for its intended us or sale form part of the cost of that asset.

All other borrowing costs are expensed 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 2015 and 2014, the Company and its subsidiaries did not capitalize amounts related to borrowing costs.

o) Interest on equity and dividends

Interest on equity

Brazilian legislation allows companies to pay interest on equity, which is similar to payment of dividend; however, this is deductible for income tax calculation purposes. The amount due accrued by the Company in its accounting records in compliance with Brazilian tax law is matched against the financial expenses account in the income statement for the year and, for the presentation of these financial statements, such expense is reversed against a direct charge to equity, resulting in the same accounting treatment adopted for dividend. The distribution of interest on equity to shareholders is subject to withholding income tax at a 15% rate.

Dividends

Minimum mandatory dividends are stated in the balance sheet as legal obligations (provisions in current liabilities). Dividend in excess of such minimum amount, not yet approved in the Shareholders' Meeting, is recorded in equity as proposed additional dividend. After approval by the shareholders' meeting, dividend in excess of mandatory minimum dividend is transferred to current liabilities, starting to represent a legal obligation.

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p) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, 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 adjusted at balance sheet date considering the probable 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 if the conditions required for their net presentation with the provision are not available.

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 on available evidence, the hierarchy of laws, available case law, the latest decisions of courts of law and their relevance in the legal system, as well as the opinion of external legal advisors. Provisions are reviewed and adjusted considering changes in existing circumstances, such as the applicable statutes of limitation, tax audit conclusions, or additional exposures identified based on

new matters or court decisions.

Provision for decommissioning of assets

This refers to costs to be incurred due to the return to the owners of the sites (locations intended for tower and equipment installation at leased property) under the same conditions at the time of execution of the initial lease agreement.

These costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of the particular 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 expensed 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.

Contingent liabilities recognized in a business combination

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

q) Taxes

Current taxes

Current tax assets and liabilities of 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 at year end. In the balance sheet, current taxes are presented net of prepayments throughout the year.

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

Deferred taxes

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

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 the 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 or 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 will likely be available so that temporary differences can be used.

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 will be available to allow all or part of the deferred tax asset to be utilized. 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 tax income or loss on the transaction date; and (ii) on temporary tax differences related to investments in subsidiaries, in which 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 tax rates (and tax law) 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 the expectation for their realization.

The tax effects of items recorded directly in equity are also recognized in equity. Deferred tax items are recognized based on the transaction in which deferred tax was originated, 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 tax asset against tax liability and deferred taxes relate to the same taxpaying entity and subject to the same tax authority.

Sales taxes

Revenue from services rendered is subject to State Value-Added Tax (ICMS) or Service Tax (ISS) at the rates in force in each area and to PIS and COFINS taxation on a cumulative basis for revenue from telecommunication services, at 0.65% and 3.00%, respectively. Other revenue earned by the Company, including revenue from resale of goods, on a noncumulative basis, is taxed at 1.65% and 7.60% 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.

Law No. 12973/14

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On May 13, 2014, Law No, 12973/14 was published, resulting from the signing into law of Provisional Executive Order (MP) No. 627/13. This law regulates the tax effects stemming from the alignment of the Brazilian accounting standards with the international standards defined by the IFRS, and ceases the Transition Tax Regime (RRT) set forth by Law No. 11941/09 and its mandatory application to all companies from January 1, 2015.

Revenue Procedure No. 1499, of October 15, 2014, published in the Brazilian Official Gazette (DOU) on October 16, 2014, determined that the December 2014 DCTF – Federal Tax Debt and Credit Return will be the base for expressing the adoption, for calendar year 2014, of the rules contained in articles 1, 2 and 4 to 70 or rules set forth in articles 76 to 92 of Law No. 12973, of May 13, 2014.

With the aim of regulating tax procedures established by Law No. 12973/14, on July 27, 2015 was enacted IN RFB No.1575 amending the IN RFB No. 1515/2014 on the disclosure of the differences between the corporate accounting and tax accounting.

The addition or exclusion adjustments to the taxable income related to the differences between the criteria for evaluation of existing assets and liabilities between tax accounting and corporate on the date of the initial adoption of Law No. 12973/14 disciplined in IN RFB No. 1515/14, seeks fiscal neutrality and, therefore, these differences should now be controlled in different financial subaccounts.

The Company’s option was reported to the Brazilian IRS in the August 2014 DCTF, filed in October 2014, which can be changed or adjusted in the December 2014 DCTF.

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 has 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 it is used to settle a liability within 12 months after the reporting period. All other assets are classified as noncurrent.

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 for at least 12 months after 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 rate 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

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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 grant are recorded at nominal amounts and released to the income statements over the expected useful life of the asset by equal annual installments. The 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 a government grant.

The financing lines with the Brazilian Development Bank (BNDES), with interest rates not exceeding those prevailing in the market, under the scope of IAS 20/CPC 7, 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 services and sale of goods, and are presented net of taxes, discounts and 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, 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 every activity of the Company.

Consolidated revenues of the Company comprise basically telecommunication services regarding voice, data, 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 sales of goods.

Recognition of revenues from telecommunication services

Revenues from telecommunication 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 the 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 public phone cards sales are deferred and recognized in the income statement based on the estimated usage of cards.

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

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

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 buyer.

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

Customer loyalty program

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 percentage and cancellation of points, among others. These estimates are subject to variations and uncertainties due to changes in the behavior of customers' redemptions.

Membership fee and promotional campaigns

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

Agreements combining more than one element

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 relatives 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 revenues.

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 rate 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 book value of the financial asset or liability.

w) Post-retirement benefit plans

The Company individually sponsors pension funds of post-retirement benefits for active and retired employees, in addition to a multiemployer supplementary retirement plan and health care plan to 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.

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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 of the respective years.

The asset or liability related to defined benefit plan to be recognized in financial statements correspond 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 and cannot be paid directly to the Company. 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 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 to 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) Significant accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and 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 probabilistic treatment inherent to the 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:

Impairment of non-financial assets

An impairment loss exists when the book value 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 periodically analyses the performance of the defined cash generating unit in order to identify a possible impairment of goodwill and its other assets. Determination of the recoverable value 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.

Post-retirement benefit plans

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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, expected rates of return on assets, future salary increases, mortality rates and future increases of 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.

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 are based on those adopted in the market, whenever possible. However, when this is not feasible, 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.

Property 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.

Where impairment is identified in the amount of tangible and intangible assets, an adjustment to such amount is recorded in the income statement for the period. The need to record impairment loss is determined by means of estimates that include, among others, the analysis of the possible impairment causes and the estimated amount thereof. In this regard, factors such as technological obsolescence, suspension of certain services and other changes are also considered in circumstances that demonstrate the need to record a possible impairment.

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.

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 values estimates could affect the distribution of revenues between components and consequently the deferred revenues.

Taxes

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

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The Company evaluates the recoverability of deferred tax asset based on estimates of future profits. This recoverability ultimately depends on the ability of the Company 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, as a result of changes in tax laws or of unexpected future transactions that may impact tax balances.

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 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 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 advisers.

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 of 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 rate effective as of the reporting date. 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 has 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.

ab) Share-based payments

The Company measures the cost of transactions settled with employees and officers based on shares issued by parent company Telefónica S.A., 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

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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-taking 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 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.

In relation to the acquisition of the 700MHz licenses on December 8, 2014, in the total amount of R$2,770,320, the amount of R$1,112,818 did not have a cash effect for the year ended December 31, 2014, considering that it will be paid in installments. The total amount paid in 2015 was R$370,379.

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 million 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 conformity 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 CADE and ANATEL, further to other conditions usually applicable to this type of transaction. The transaction was approved by ANATEL under Act No. 448 of January 22, 2015 and published in the Official Federal Gazette (“DOU”) on January 26, 2015, and by CADE at the 61st ordinary session of its Trial Court, held on March 25, 2015, and published in the Official Federal Gazette (“DOU”) on March 31, 2015.

Once the acquisition transaction was completed on May 28, 2015, the Company has held direct interests in GVTPart and indirect interests 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 the 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 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)
Net cash consideration	**8,903,954**
(+) Contingent consideration	344,217
(+) Consideration in shares at fair value	8,477,314
(-) Cash flow hedge gain on transaction , net of tax (a)	(377,373)
(-) Receivable from closure of purchase value	(84,598)

Total consideration net of cash flow hedge	**17,263,514**

(a) 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.

Below is a breakdown of the fair value of identifiable net assets acquired for R$4,426,373, as well as goodwill recorded on the acquisition date: The fair value amounts allocated to each account group are also stated below, which take into consideration updating of the last disclosed information to reflect new facts, which is allowed by the accounting standards during a period of 12 months from the acquisition date.

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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
Trade 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 investments 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**
		Total value of identifiable net assets acquired	**4,426,373**
		Goodwill (5)	**12,837,141**
Fair value of assets acquired	**13,583,890**	**Total considered, net of cash flow hedge**	**17,263,514**

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

(2) This includes the allocation of fair value assigned to the brand (R$59,000), customer portfolio (R$2,523,000), appreciation and other intangible assets (R$20,394).

(3) This includes the allocation of fair value assigned to contingent liabilities (R$512.648).

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

(5) This refers to goodwill recorded on the acquisition of GVTPart. based on expected synergies resulting from the business combination, including a nondeductible amount R$549,413, which is under review and adjustments to determine the fair value of identifiable assets acquired and liabilities assumed from

GVTPart. This review is expected to be completed shortly, as soon as management has all significant information about the facts, limited to a period not exceeding 12 months after the date of acquisition.

The main purpose of the Company's acquisition 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 market, 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.

Brand

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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 year.

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 of or netting) these funds, they will be returned to Vivendi, as long as they are obtained in a final unappealable 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, lease and contingent consideration” (Note 21), which is subject to monthly monetary adjustments based on the Selic rate.

Fair Value of Contingent Liabilities

According to IFRS 3(R) - 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 of R$512,648, which were determined considering the expected cash outflow required to settle the obligation on the acquisition date (Note 19).

Nature	Aquisition Date	12.31.15
Tax	461,548	501,800
Labor	35,955	39,188
Civil	7,799	7,759
Regulatory	7,346	8,152
Total	**512,648**	**556,899**

Other information

Cash flow analysis on acquisition	**R$ thousand**
Transaction cost on acquisition (including cash from operations)	(13,776)
Cash and cash equivalents at acquired company (including cash from inesting activities)	390,255
Net balance of cash and cash equivalents in acquisition	**376,479**

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Until conclusion of these financial statements, the transaction costs incurred amounted to R$13,776, recorded in the Company's income statement as operating expenses.

The fair value of accounts receivable for service rendering totaled R$947,378 as of acquisition date, which does not differ from the book value comprising the gross amount of R$1,271,314, net of estimated impairment losses totaling R$323,936.

From the date of acquisition to the completion of these financial statements, GVTPart. contributed R$3,999,751 in combined net operating revenue and R$101,030 in combined net income to the Company. See Note 36 for a presentation of the pro forma effects of the acquisition of GVT Par on the results of operations for 2015 and 2014.

Upon completion of these financial statements, the Company was performing a review of and adjustments to the determination of the fair value of identifiable assets acquired and liabilities assumed of GVTPart. This review is expected to be completed shortly, as soon as management has all significant information about the facts, limited to a period not exceeding 12 months after the date of acquisition.

5) CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Cash and banks	201,294	63,136	233,742	64,010
Short-term investments	4,005,301	3,772,168	5,103,103	4,628,679
Total	**4,206,595**	**3,835,304**	**5,336,845**	**4,692,689**

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

6) TRADE ACCOUNTS RECEIVABLE, NET

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Billed amounts	5,605,057	4,957,574	6,959,513	5,538,184
Unbilled amounts	1,490,470	1,280,851	2,111,746	1,410,273
Interconnection amounts	1,531,352	1,579,277	1,555,480	1,579,277
Amounts from related parties (Note 30)	241,233	157,306	206,957	115,048
Gross accounts receivable	**8,868,112**	**7,975,008**	**10,833,696**	**8,642,782**
Estimated impairment losses	(1,650,112)	(1,313,956)	(2,217,926)	(1,619,316)
Total	**7,218,000**	**6,661,052**	**8,615,770**	**7,023,466**
Current accounts receivable	7,000,379	6,470,764	8,285,319	6,724,061
Noncurrent accounts receivable	217,621	190,288	330,451	299,405

Consolidated balances of noncurrent trade accounts receivable include:

- At December 31, 2015, R$217,621 (R$190,288 at December 31, 2014) referring to the business model of resale of goods to legal entities, receivable within 24 months. At December 31, 2015, the impact of the present-value adjustment was R$59,378 (R$29,872 at December 31, 2014).

- At December 31, 2015, R$112,830 (R$109,117 at December 31, 2014) referring to "Soluciona TI", traded by TData, which consists in lease of IT equipment to small and medium enterprises and receipt of fixed installments over the contractual term. Considering the contractual terms, this product was classified as finance lease. At December 31, 2015, the impact of the present-value adjustment was R$3,671 (R$7,522 at December 31, 2014).

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

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Falling due	5,186,776	4,853,376	6,158,130	5,107,714
Overdue – 1 to 30 days	949,131	914,709	1,082,139	970,086
Overdue – 31 to 60 days	323,882	318,552	375,908	328,367
Overdue – 61 to 90 days	214,337	207,542	324,985	243,981
Overdue – 91 to 120 days	93,826	75,895	103,876	73,962
Overdue – over 120 days	450,048	290,978	570,732	299,356
Total	**7,218,000**	**6,661,052**	**8,615,770**	**7,023,466**

At December 31, 2015 and December 31, 2014, no customer represented more than 10% of trade accounts receivable, net.

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

	Company	Consolidated
Balance at 12.31.13	**(1,033,665)**	**(1,271,622)**
Net Supplement to estimated losses (Note 25)	(832,184)	(896,336)
Write-off from use	551,893	548,642
Balance at 12.31.14	**(1,313,956)**	**(1,619,316)**
Net Supplement to estimated losses (Note 25)	(1,016,816)	(1,230,675)
Write-off from use	680,660	956,001
Business combination (Note 4)	-	(323,936)
Balance at 12.31.15	**(1,650,112)**	**(2,217,926)**

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

	Consolidated	
	12.31.15	12.31.14
Present value accounts receivable	574,534	497,523
Deferred financial income	3,671	7,522
Nominal amount receivable	**578,205**	**505,045**
Estimated impairment losses	(306,443)	(240,191)
Net amount receivable	**271,762**	**264,854**
Current accounts receivable	158,932	155,737
Noncurrent accounts receivable	112,830	109,117

At December 31, 2015, the aging list of gross trade accounts receivable referring to “Soluciona TI” product is as follows:

	Consolidated	
	Nominal amount receivable	Present value receivable
Falling due within twelve months	308,026	308,026
Falling due within five years	270,179	266,508
Total	**578,205**	**574,534**

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

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7) INVENTORIES, NET

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Material for resale (a)	550,283	441,793	594,888	464,718
Material for consumption	48,562	54,847	53,275	55,820
Other inventories	7,809	7,749	7,809	7,749
Gross total	**606,654**	**504,389**	**655,972**	**528,287**
Estimated losses from impairment or obsolescence	(48,390)	(45,901)	(52,341)	(48,486)
Total	**558,264**	**458,488**	**603,631**	**479,801**

(a) 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 12.31.13	**(52,275)**	**(58,161)**
Supplement to estimated losses	(27,152)	(31,012)
Reversal of estimated losses	33,526	40,687
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 12.31.15	**(48,390)**	**(52,341)**

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

8) DEFERRED TAXES AND TAXES RECOVERABLE

8.1) Taxes recoverable

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
State VAT (ICMS) (a)	1,866,777	1,686,062	2,063,159	1,696,578
Income and social contribution taxes recoverable (b)	267,238	597,718	301,714	601,515
Withheld taxes and contributions (c)	132,442	115,445	293,065	134,795
PIS and COFINS	108,758	85,662	133,925	86,447
Fistel, INSS, ISS and other taxes	126,806	18,722	139,082	23,532
Total	**2,502,021**	**2,503,609**	**2,930,945**	**2,542,867**
Current recoverable taxes	2,164,544	2,163,404	2,521,292	2,202,662
Noncurrent recoverable taxes	337,477	340,205	409,653	340,205

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

(b) These refer to prepayments of income and social contribution taxes, which will be offset against federal taxes to be determined in the future.

(c) These refer 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.

8.2) Deferred taxes

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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.

Deferred taxes were determined considering future realization, as follows:

(a) Income and social contribution tax losses: the amount 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.

(b) Merged tax credit: represented by tax benefits arising from corporate restructuring of goodwill for expected future profitability, whose tax use follows the limit set forth in tax legislation.

(c) Income and social contribution taxes on temporary differences: amounts will be realized upon payment of provisions, effective impairment loss of trade accounts receivable, or realization of inventories, as well as upon reversal of other provisions.

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

				Company				
	Balances at 12.31.13	Income statement	Comprehensive income	Balances at 12.31.14	Income statement	Comprehensive income	Other	Balance at 12.31.1
Deferred tax assets								
Income and social contribution tax losses (a)	122,321	(52,157)	-	70,164	(70,164)	-	-	
Income and social contribution taxes on temporary differences (c)								
Provisions for judicial, labor, tax civil and regulatory contingencies	1,322,244	132,105	-	1,454,349	226,667	-	-	1,681,01
Trade accounts payable and other provisions	338,458	98,341	-	436,799	98,202	-	-	535,00
Customer portfolio and trademarks	-	311,141	-	311,141	-	-	-	311,14
Estimated losses for impairment trade accounts	241,203	62,729	-	303,932	65,242	-	-	369,17

receivable								
Estimated losses from modems and other P&E items	164,518	3,175	-	167,693	(1,876)	-	-	165,81
Pension plans and other post-retirement benefits	143,537	12,689	-	156,226	(111,360)	-	-	44,86
Profit sharing	71,287	73,772	-	145,059	(56,115)	-	-	88,94
Provision for loyalty program	31,199	309	-	31,508	1,096	-	-	32,60
Accelerated accounting depreciation	154,181	(138,806)	-	15,375	(4,510)	-	-	10,86
Estimates impairment losses (write-offs and reversals) on inventories	10,884	(870)	-	10,014	(650)	-	-	9,36
Income social contribution taxes on other temporary differences	157,988	(23,580)	21,416	155,824	11,727	117,804	1,524	286,87
Total deferred assets	**2,757,820**	**478,848**	**21,416**	**3,258,084**	**158,259**	**117,804**	**1,524**	**3,535,67**
Deferred liabilities								
Merged tax credit (b)	(337,535)	-	-	(337,535)	-	-	-	(337,535
Income and social contribution taxes on temporary differences (c)								
Licenses	(719,780)	(268,116)	-	(987,896) -	(216,330)	-	-	(1,204,226

Effects of goodwill generated upon merger of Vivo Part.	(568,338)	(147,200)	-	(715,538) -	(94,062)	-	-	(809,600
Goodwill from Vivo Part.	(480,366)	(208,711)	-	(689,077) -	(203,926)	-	-	(893,003
Technological innovation law	(308,490)	52,036	-	(256,454) -	63,308	-	-	(193,146
Customer portfolio	(461,870)	461,870	-	- -	-	-	-	
Trademarks and patents	(479,548)	479,548	-	- -	-	-	-	
Income and social contribution taxes on other temporary differences	(124,527)	7,605	(113,958)	(230,880)	115,701	(138,933)	-	(254,112
Total deferred liabilities	**(3,480,454)**	**377,032**	**(113,958)**	**(3,217,380)**	**(335,309)**	**(138,933)**	**-**	**(3,691,622**
Noncurrent total assets (liabilities) net	**(722,634)**	**855,880**	**(92,542)**	**40,704**	**(177,050)**	**(21,129)**	**1,524**	**(155,951**
<u>Deferred tax assets (liabilities), net</u>								
Stated in the balance sheet as follows:								
Noncurrent deferred net tax assets	**-**			**40,704**				
Noncurrent deferred net tax liabilities	**(722,634)**			**-**				**(155,951**

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	Consolidated							
	Balances at 12.31.13	Income statements	Comprehensive income	Balances at 12.31.14	Income statements	Comprehensive income	Business combination (a)	Ot
Deferred tax assets								
Income and social contribution tax losses (a)	262,915	(169,369)	-	93,546	(67,027)	-	-	
Income and social contribution taxes on temporary differences (c)								
Provisions for judicial, labor, tax civil and regulatory contingencies	1,327,288	132,550	-	1,459,838	244,659	-	208,321	
Trade accounts payable and other provisions	398,956	103,001	-	501,957	134,726	-	50,441	
Impairment of trade accounts receivable	245,556	69,516	-	315,072	21,114	-	110,832	
Customer protfolio and	-	311,141	-	311,141	87,051	-	-	

trademarks								
Estimated losses from modems and other P&E items	166,174	3,532	-	169,706	578	-	120,346	
Pension plan and other post employment benefits	143,537	12,688	-	156,225	(111,238)	-	-	
Profit sharing	71,948	73,881	-	145,829	(62,501)	-	22,870	
Accelerated accounting depreciation	154,181	(138,806)	-	15,375	(4,510)	-	-	
Estimates impairment losses (write-offs and reversals) on inventories	12,885	(1,992)	-	10,893	(186)	-	-	
Provision for loyalty program	31,199	308	-	31,507	1,096	-	-	
Income and social contribution taxes on temporary differences	157,313	(23,214)	21,416	155,515	(217,140)	117,804	127,690	1,5
Total deferred tax assets	**2,971,952**	**373,236**	**21,416**	**3,366,604**	**26,622**	**117,804**	**640,500**	**1,5**
<u>Deferred tax liabilities</u>								
Merged tax credit (b)	(337,535)	-	-	(337,535)	-	-	-	
Incoem and social contribution taxes on temporary differences (c)								

Licenses	(719,780)	(268,116)	-	(987,896)	(216,330)	-	-	
Effects of goodwill generated in the acquisition of Vivo Part.	(568,338)	(147,200)	-	(715,538)	(94,062)	-	-	
Goodwill from Vivo Part.	(480,366)	(208,711)	-	(689,077)	(203,926)	-	-	
Technological Innovation Law	(308,490)	52,036	-	(256,454)	63,308	-	-	
Customer portfolio	(461,870)	461,870	-	-	-	-	-	
Trademarks and patents	(479,548)	479,548	-	-	-	-	-	
Negative goodwill from merger of shares	-	-	-	-	-	-	(22,838)	
Income and social contribution taxes on temporary differences	(128,365)	7,036	(113,958)	(235,287)	390,681	(136,510)		
Total deferred tax liabilities	**(3,484,292)**	**376,463**	**(113,958)**	**(3,221,787)**	**(60,329)**	**(136,510)**	**(22,838)**	
Total noncurrent assets (liabilities) net	**(512,340)**	**749,699**	**(92,542)**	**144,817**	**(33,707)**	**(18,706)**	**617,662**	**1,5**
<u>Net tax deferred tax assets (liabilities)</u>								
Stated in the balance sheet as follows:								
Noncurrent deferred tax assets, net	**210,294**			**144,817**				

Noncurrent deferred tax liabilities, net	**(1,202,182)**	**-**

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These refer to deferred taxes (IR and CS) arising from business combinations, R$610,873 being of GVTPart. (Note 4) and R$6,789 of TGLog (Note 12a).

At December 31, 2015, the amount of R$481.203 in deferred tax credits (tax on tax losses and social contribution tax losses) was not recognized for direct and indirect subsidiaries (Innoweb, GVT and GVTPart.), as it is not probable that future taxable profits will be available for these entities to benefit from such tax credits.

The table below presents deferred income and social contribution taxes for items charged or credited directly in equity, at December 31, 2015 and 2014.

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Unrealized losses on available-for-sale investment	636	2,599	636	2,599
Actuarial losses and effect of the asset ceiling on plan surplus	(138,933)	18,817	(136,510)	18,817
Gain (losses) on derivative transactions	117,168	(113,958)	117,168	(113,958)
Total	**(21,129)**	**(92,542)**	**(18,706)**	**(92,542)**

Expected realization of deferred taxes, net is as follows: The amounts are based on projections subject to change in the future.

Year	Company	Consolidated
2016	950,145	1,477,800
2017	473,715	503,112
2018	196,313	207,231
2019	265,310	276,170

2020	253,785	253,837
2021 onwards	(2,295,219)	(2,006,560)
Total	(155,951)	711,590

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 whose likelihood of loss was analyzed by the Company, grounded on the opinion of its legal advisors as a probable, possible or remote loss.

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Judicial deposits				
Tax	2,900,671	2,647,635	3,374,764	2,665,757
Labor	1,062,118	1,008,745	1,128,935	1,016,019
Civil and regulatory	1,030,130	935,842	1,114,770	936,782
Total	**4,992,919**	**4,592,222**	**5,618,469**	**4,618,558**
Garnishments	122,913	124,730	134,994	126,667
Total	**5,115,832**	**4,716,952**	**5,753,463**	**4,745,225**
Current	235,343	202,169	235,343	202,169
Noncurrent	4,880,489	4,514,783	5,518,120	4,543,056

At December 31, 2015, the Company and its subsidiaries had a number of tax-related judicial deposits, reaching the consolidated amount of R$3,374,764 (R$2,665,757 at December 31, 2014). In Note 19, we provide further details on issues arising from the main judicial deposits.

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

- Contribution tax on gross revenue for social integration program (PIS) and Contribution tax on gross revenue for social security financing (COFINS)

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

At December 31, 2015, the consolidated balance of judicial deposits amounted to R$35,272 (R$33,040 at December 31, 2014).

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

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

At December 31, 2015, the consolidated balance of judicial deposits amounted to R$164,482 (R$153,759 at December 31, 2014).

- Telecommunications Inspection Fund (FISTEL)

ANATEL collects Installation Inspection Fee (TFI) on extension of licenses granted and on radio base stations, mobile stations and radio links. Such collection results from the understanding of ANATEL that

said extension would be a triggering event of TFI and that mobile stations, even if owned by third parties, are also subject to TFI. The Company and TData are challenging the aforesaid fee in court.

At December 31, 2015, the consolidated balance of judicial deposits amounted to R$1,008,771 (R$929,880 at December 31, 2014).

- 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, 2015, the consolidated balance of judicial deposits amounted to R$67,996 (R$63,295 at December 31, 2014).

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

The Company is involved in disputes related to: (i) debts stemming from offsetting of IRPJ overpayments not recognized by the Brazilian IRS; (ii) requirement of IRPJ estimates and lack of payment of debts in the integrated system of economic and tax information (SIEF); and (iii) underpaid IRPJ amounts.

GVTPart. is involved in a dispute relating to the right to monthly amortize goodwill arising from the acquisition of GVTPart. by Vivendi on deducted IRPJ and CSLL amounts (Note 4).

At December 31, 2015, the consolidated balance of judicial deposits amounted to R$410,412 (R$30,325 at December 31, 2014).

- Contribution to Empresa Brasil de Comunicação (EBC)

On behalf of its members, Sinditelebrasil (Union of Telephony and Mobile and Personal Services) is challenging in court payment of the Contribution to Foster Public Radio Broadcasting to EBC, introduced by

Law No. 11652/2008. The Company and its subsidiaries, as union members, made judicial deposits referring to that contribution.

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At December 31, 2015, the consolidated balance of judicial deposits amounted to R$858,630 (R$672,593 at December 31, 2014).

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

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

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

At December 31, 2015, the consolidated balance of judicial deposits amounted to R$118,425 (R$102,820 at December 31, 2014).

- Unemployment Compensation Fund (FGTS)

The Company is discussing this matter in court in order to represent its right not to pay surtax of 0.5% and 10% for FGTS introduced by Supplementary Law No. 110/01 levied on deposits made by employers (the proceedings did not result in any reduction of FGTS deposits made by the Company on behalf of its employees).

An unfavorable ruling was rendered on the case, establishing conversion of the full deposit amount into federal government income. At December 31, 2014, the consolidated balance of judicial deposits amounted to R$76,459.

- Tax on Net Income (ILL)

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

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

At December 31, 2015, the consolidated balance of judicial deposits amounted to R$58,446 (R$54,723 at December 31, 2014).

- Universal Telecommunication Services Fund (FUST)

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

At December 31, 2015, the consolidated balance of judicial deposits amounted to R$425,737 (R$394,489 at December 31, 2014).

- State Value-Added Tax (ICMS)

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

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

At December 31, 2015, the consolidated balance of judicial deposits amounted to R$161,815 (R$97,278 at December 31, 2014).

- Other taxes, charges and contributions

The Company is involved in disputes related to: (i) Service Tax (ISS) on noncore 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, 2015, the consolidated balance of judicial deposits amounted to R$64,778 (R$57,096 at December 31, 2014).

10) PREPAID EXPENSES

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Advertising and publicity	228,672	198,758	228,672	198,758
Insurance	24,035	33,594	28,367	35,574
Rent	43,022	45,318	43,022	45,318
Financial charges	11,120	8,426	11,120	8,426
Software maintenance, taxes and other	39,108	38,817	75,874	41,698

Total	**345,957**	**324,913**	**387,055**	**329,774**
Current	317,325	300,567	356,446	303,551
Noncurrent	28,632	24,346	30,609	26,223

11) OTHER ASSETS

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Advances to employees and suppliers	72,635	49,827	81,615	50,981
Related-party receivables (Note 30)	288,702	318,041	162,308	73,042
Receivables from suppliers	118,153	114,422	120,091	121,615
Subsidy on handset sales	42,896	45,850	42,896	45,850
Pension plan surplus (Note 33)	8,391	14,515	8,724	14,653
Repayment clauses 2.2.4 and 2.2.5 SPA (Note 4)	84,598	-	84,598	-
Other amounts receivable	42,971	87,068	51,199	87,280
Total	**658,346**	**629,723**	**551,431**	**393,421**
Current assets	603,118	535,020	488,632	298,496
Noncurrent assets	55,228	94,703	62,799	94,925

12) INVESTMENTS

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

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

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TData: 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 network, 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"), an entity under common control with the Company. The consideration paid for the acquisition of shares of TGLog amounted to R$15,811.

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

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

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

ACT: Jointly-controlled subsidiary headquartered in Brazil, with 50% interest held by the Company, this entity is engaged in holding interest in Refibra Consortium, and in performing activities related to the

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 12.31.15					At 12.31.14			
	Wholly-owned subsidiaries		Jointly controlled subsidiaries			Wholly-owned subsidiary	Jointly controll subsidiaries		
	TData	GVTPart.	Cia ACT	Cia AIX	Aliança	TData	Cia ACT	Cia AIX	A
<u>Equity interest</u>	**100.00%**	**100.00%**	**50.00%**	**50.00%**	**50.00%**	**100.00%**	**50.00%**	**50.00%**	**5**
<u>Summary of balance sheets:</u>									
Current assets	1,411,043	1,910,323	9	17,851	179,698	1,749,933	11	12,728	1
Noncurrent assets	409,595	9,329,733	-	11,824	-	335,735	-	12,134	
Total assets	**1,820,638**	**11,240,056**	**9**	**29,675**	**179,698**	**2,085,668**	**11**	**24,862**	**1**
Current liabilities	707,352	1,924,230	1	4,394	100	883,906	1	3,232	
Noncurrent liabilities	56,981	1,641,382	-	5,083	-	48,611	-	4,546	
Equity	1,056,305	7,674,444	8	20,198	179,598	1,153,151	10	17,084	1
Total liabilities and equity	**1,820,638**	**11,240,056**	**9**	**29,675**	**179,698**	**2,085,668**	**11**	**24,862**	**1**
Investment book value	**1,056,305**	**7,674,444**	**4**	**10,099**	**89,799**	**1,153,151**	**5**	**8,542**	

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	At 12.31.15					At 12.31.14		
	Wholly-owned subsidiaries		Jointly controlled subsidiaries			Wholly-owned subsidiary	Jointly subs	
Summary of income statements:	TData	GVTPart.	Cia ACT	Cia AIX	Aliança	TData	Cia ACT	Cia
Net operating income	2,524,763	3,999,751	64	39,199	-	2,184,241	62	51
Cost of sales and services	(1,160,197)	(2,299,230)	-	(30,828)	-	(1,066,114)	-	(31,
Selling expenses	(166,008)	(837,766)	-	-	-	(111,780)	-	
General and administrative expenses	(24,141)	(231,204)	(65)	(5,686)	(124)	(30,253)	(61)	(5,
Other operating income (expenses), net	353	(47,444)	(1)	(292)	-	29,410	(1)	1
Financial income (expenses), net	109,886	(461,815)	-	2,503	106	110,104	-	1
Income (loss) before taxes	**1,284,656**	**122,292**	**(2)**	**4,896**	**(18)**	**1,115,608**	**-**	**16**
Income and social contributions taxes	(427,132)	(21,262)	-	(804)	-	(379,920)	-	(2,
Net income (loss) for the year	**857,524**	**101,030**	**(2)**	**4,092**	**(18)**	**735,688**	**-**	**13**
Book value of net income (loss) for the year, recognized as equity pickup	**857,524**	**101,030**	**(1)**	**2,046**	**(9)**	**735,688**	**-**	**6**

b) <u>Changes in investments</u>

	Balances at 12.31.14	Additions	Capital increase	Equity pickup	Dividends and interest on equity	Other comprehensive income	Other changes	Balances at 12.31.15
<u>Equity investments</u>	**1,229,827**	**1,752,724**	**5,827,064**	**960,590**	**(950,026)**	**16,974**	**(6,502)**	**8,830,651**
<u>Wholly-owned subsidiary</u>	**1,153,151**	**1,752,724**	**5,827,064**	**958,554**	**(949,537)**	**(4,705)**	**(6,502)**	**8,730,749**
TData	1,153,151	-	-	857,524	(949,537)	107	(4,940)	1,056,305
GVTPart.	-	1,752,724	5,827,064	101,030	-	(4,812)	(1,562)	7,674,444
<u>Jointly -controlled subsidiaries</u>	**76,676**	**-**	**-**	**2,036**	**(489)**	**21,679**	**-**	**99,902**
Aliança	68,129	-	-	(9)	-	21,679	-	89,799

AIX	8,542	-	-	2,046	(489)	-	-	10,099
ACT	5	-	-	(1)	-	-	-	4
Goodwill (a)	**212,058**	**12,837,141**	**-**	**-**	**-**	**-**	**-**	**13,049,199**
Value added from net assets acquired allocated to Company	**-**	**2,673,647**	**-**	**(212,064)**	**-**	**-**	**-**	**2,461,583**
<u>Other investments</u>	**3,129**	**-**	**-**	**-**	**-**	**(1,870)**	**-**	**1,259**
Other investments (b)	3,129	-	-	-	-	(1,870)	-	1,259
Total investments in Company	**1,445,014**	**17,263,512**	**5,827,064**	**748,526**	**(950,026)**	**15,104**	**(6,502)**	**24,342,692**
Aliança	68,129	-	-	(9)	-	21,679	-	89,799
AIX	8,542	-	-	2,046	(489)	-	-	10,099
ACT	5	-	-	(1)	-	-	-	4
Other investments (b)	3,129	-	-	-	-	(1,870)	-	1,259
Total investments in consolidated	**79,805**	**-**	**-**	**2,036**	**(489)**	**19,809**	**-**	**101,161**

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	Balances at 12.31.13	Equity pickup	Dividends and interest on equity	Other comprehensive income	Balances at 12.31.14
Equity investments	**853,866**	**742,628**	**(366,116)**	**(551)**	**1,229,827**
Wholly-owned subsidiaries	**778,289**	**735,688**	**(360,826)**	**-**	**1,153,151**
TData	778,289	735,688	(360,826)	-	1,153,151
Jointly controlled subsidiaries	**75,577**	**6,940**	**(5,290)**	**(551)**	**76,676**
Aliança	68,607	73	-	(551)	68,129
AIX	6,965	6,867	(5,290)	-	8,542
ACT	5	-	-	-	5
Goodwill (a)	**212,058**	**-**	**-**	**-**	**212,058**
Value added from net assets acquired allocated to Company	**-**	**-**	**-**	**-**	-
Other equity interest	**10,772**	**-**	**-**	**(7,643)**	**3,129**
Other investments (b)	10,772	-	-	(7,643)	3,129
Total investments in Company	**1,076,696**	**742,628**	**(366,116)**	**(8,194)**	**1,445,014**
Aliança	68,607	73	-	(551)	68,129
AIX	6,965	6,867	(5,290)	-	8,542
ACT	5	-	-	-	5
Other investments (b)	10,772	-	-	(7,643)	3,129
Total investments in consolidated	**86,349**	**6,940**	**(5,290)**	**(8,194)**	**79,805**

(a) Goodwill: i) R$212,058 from partial spin-off of “Spanish e Figueira”, which was reversed to the Company upon merger of Telefonica Data Brasil Holding S.A. (TDBH) in 2006; and ii) R$12,837.141 from acquisition of GVTPart. (Note 4).

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

13) PROPERTY, PLANT EQUIPMENT, NET

a) Breakdown, changes and depreciation rates

	Company							
	Switching equipment	Transmission equipment and media	Terminal equipment / modems	Infrastructure	Land	Other P&E assets	Estimated losses (a)	Assets and facilities under construction
Annual depreciation rates	**10.00 a 14.29**	**5.00 a 14.29**	**10.00 a 66.67**	**2.50 a 66.67**	**-**	**10.00 a 25.00**	**-**	**-**
Balances and changes:								
Balance at 12.31.13	**2,364,940**	**8,432,306**	**1,455,849**	**3,466,208**	**314,558**	**598,308**	**(168,124)**	**1,913,860**
Additions (Capex)	12,042	103,890	150,116	47,246	-	161,300	-	5,105,560
Disposals, net	(770)	(34,434)	(2,787)	(1,286)	(208)	(2,217)	12,016	(18,846)
Transfers, net	606,830	3,041,968	918,297	513,005	-	124,376	(484)	(5,294,036)
Depreciation (Note 25)	(441,366)	(1,335,153)	(910,788)	(539,982)	-	(210,463)	-	-
Balance at 12.31.14	**2,541,676**	**10,208,577**	**1,610,687**	**3,485,191**	**314,350**	**671,304**	**(156,592)**	**1,706,538**
Additions (Capex)	6,824	178,685	110,688	47,958	215	190,918	-	4,829,135
Disposals, net	(3,882)	(24,700)	(2,829)	(2,212)	(74)	(1,782)	1,315	(19,924)
Transfers, net	749,408	2,802,624	737,687	367,300	(1,386)	78,072	-	(4,743,981)
Depreciation (Note 25)	(497,985)	(1,485,157)	(925,440)	(526,705)	-	(227,427)	-	-
Balance at 12.31.15	**2,796,041**	**11,680,029**	**1,530,793**	**3,371,532**	**313,105**	**711,085**	**(155,277)**	**1,771,768**
At 12.31.15								
Cost	17,688,862	39,825,516	11,530,512	13,870,397	313,105	3,591,962	(155,277)	1,771,768
Accumulated depreciation	(14,892,821)	(28,145,487)	(9,999,719)	(10,498,865)	-	(2,880,877)	-	-
Total	**2,796,041**	**11,680,029**	**1,530,793**	**3,371,532**	**313,105**	**711,085**	**(155,277)**	**1,771,768**
At 12.31.14								
Cost	17,140,731	37,199,508	10,838,174	13,486,180	314,350	3,394,231	(156,592)	1,706,538
	(14,599,055)	(26,990,931)	(9,227,487)	(10,000,989)	-	(2,722,927)	-	-

Accumulated depreciation								
Total	**2,541,676**	**10,208,577**	**1,610,687**	**3,485,191**	**314,350**	**671,304**	**(156,592)**	**1,706,538**

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	Consolidated							
	Switching equipment	Transmission equipment and media	Terminal equipment / modems	Infrastructure	Land	Other P&E assets	Estimated losses (a)	Assets an facilitie unde constructio
Annual depreciation rates	**8.33 a 20.00**	**2.50 a 25.00**	**10.00 a 66.67**	**2.50 a 66.67**	**-**	**10.00 a 66.67**	**-**	
Balances and changes:								
Balance at 12.31.13	**2,365,290**	**8,432,543**	**1,468,057**	**3,468,495**	**314,558**	**594,957**	**(169,979)**	**1,967,72**
Additions (Capex)	12,042	103,890	163,428	47,246	-	172,816	-	5,105,56
Disposals, net	(770)	(34,434)	(2,787)	(1,286)	(208)	(2,217)	13,735	(20,109
Transfers, net	606,830	3,041,968	918,454	513,005	-	172,075	(484)	(5,338,439
Depreciation (Note 25)	(441,475)	(1,335,205)	(918,815)	(540,525)	-	(222,078)	-	
Balance at 12.31.14	**2,541,917**	**10,208,762**	**1,628,337**	**3,486,935**	**314,350**	**715,553**	**(156,728)**	**1,714,73**
Additions (Capex)	188,037	885,865	409,250	64,128	215	250,149	(12,111)	4,848,11
Disposals, net	(4,462)	(17,546)	(13,832)	(4,512)	(74)	(12,550)	1,356	(23,145
Transfers, net	891,848	2,742,465	753,585	238,921	(1,386)	184,369	-	(4,808,253
Depreciation (Note 25)	(630,939)	(1,820,859)	(1,184,372)	(551,268)	-	(323,430)	-	
Business combinations (b)	972,558	4,978,317	1,553,141	421,747	2,600	252,361	(326,666)	119,27
Balance at 12.31.15	**3,958,959**	**16,977,004**	**3,146,109**	**3,655,951**	**315,705**	**1,066,452**	**(494,149)**	**1,850,73**
At 12.31.15								
Cost	19,724,438	47,459,383	14,522,080	14,278,557	315,705	4,487,749	(494,149)	1,850,73

Accumulated depreciation	(15,765,479)	(30,482,379)	(11,375,971)	(10,622,606)	-	(3,421,297)	-	
Total	**3,958,959**	**16,977,004**	**3,146,109**	**3,655,951**	**315,705**	**1,066,452**	**(494,149)**	**1,850,73**
At 12.31.14								
Cost	17,147,961	37,200,161	10,882,788	13,497,058	314,350	3,549,258	(156,728)	1,714,73
Accumulated depreciation	(14,606,044)	(26,991,399)	(9,254,451)	(10,010,123)		(2,833,705)		
Total	**2,541,917**	**10,208,762**	**1,628,337**	**3,486,935**	**314,350**	**715,553**	**(156,728)**	**1,714,73**

(a) The Company and its subsidiaries recognized a provision for potential obsolescence of materials used in P&E maintenance, based on levels of historical use and expected future use.

(b) These refer to amounts arising from business combinations, of which R$7,970,117 of GVTPart. (Note 4) and R$3,217 of TGLog (Note 12a).

b) Property and equipment items given in guarantee

At December 31, 2015, the Company had consolidated amounts of property and equipment items given in guarantee for lawsuits, amounting to R$163,802 (R$130,000 at December 31, 2014).

c) Capitalization of borrowing costs

At December 31, 2015 and 2014, the Company and its subsidiaries did not capitalize borrowing costs, as there were no qualifying assets.

d) Reversible assets

The STFC service concession arrangement establishes that all assets owned by the Company and that are indispensable to the provision of the services described in the referred to arrangement are considered reversible assets and are deemed to be part of the service concession assets. These assets will be automatically returned to ANATEL upon termination of the service concession arrangement, according to the regulation in force. At December 31, 2015, estimated residual value of reversible assets was R$7,855,868 (R$7,639,587 at December 31, 2014), which comprised switching and transmission equipment and public use terminals, external network equipment, energy equipment and system and operation support equipment.

e) Finance lease

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

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	Consolidated						
		12.31.15			12.31.14		
	Annual depreciation rate (%)	P&E Cost	Accumulated depreciation	Net balance	P&E Cost	Accumulated depreciation	Net balance
Transmission equipment and media	5% to 8.33%	252,232	(25,033)	227,199	209,935	(12,062)	197,873
Infrastructure	5.00%	6,674	(2,291)	4,383	5,279	(2,032)	3,247
Other assets	20.00%	116,945	(82,804)	34,141	78,295	(78,295)	-
Total		**375,851**	**(110,128)**	**265,723**	**293,509**	**(92,389)**	**201,120**

14) INTANGIBLE ASSETS, NET

a) Breakdown, changes and amortization rates

	Company							
	Indefinite useful life	Finite useful life						
	Goodwill	Software	Customer portfolio	Trademarks	Licenses	Other intangible assets	Software under development	To
Annual amortization rate(%)	**-**	**20.00**	**11.76**	**5.13**	**3.60 a 6.67**	**20.00**	**-**	
Balances and changes:								
Balance at 12.31.13	**10,013,222**	**1,983,624**	**1,358,442**	**1,410,453**	**14,474,566**	**336**	**46,348**	**29,286,9**

Additions (Capex)	-	497,174	-	-	2,770,320	-	267,339	3,534,8
Net disposals	-	(124)	-	-	-	-	-	(12
Net transfers	-	290,711	-	-	42,892	-	(247,012)	86,5
Amortization (Note 25)	-	(761,328)	(248,566)	(84,207)	(741,180)	(223)	-	(1,835,50
Balance at 12.31.14	**10,013,222**	**2,010,057**	**1,109,876**	**1,326,246**	**16,546,598**	**113**	**66,675**	**31,072,7**
Additions (Capex)	-	585,853	-	-	116	10,002	351,095	947,0
Net disposals	-	(31)	-	-	-	-	-	(3
Net transfers	-	354,683	-	-	-	(3,108)	(341,299)	10,2
Amortization (Note 25)	-	(787,627)	(248,566)	(82,685)	(911,632)	(2,048)	-	(2,032,55
Balance at 12.31.15	**10,013,222**	**2,162,935**	**861,310**	**1,243,561**	**15,635,082**	**4,959**	**76,471**	**29,997,5**
At 12.31.15								
Cost	10,013,222	12,155,929	1,990,278	1,601,433	20,052,123	158,897	76,471	46,048,3
Accumulated amortization	-	(9,992,994)	(1,128,968)	(357,872)	(4,417,041)	(153,938)	-	(16,050,81
Total	**10,013,222**	**2,162,935**	**861,310**	**1,243,561**	**15,635,082**	**4,959**	**76,471**	**29,997,5**
At 12.31.14								
Cost	10,013,222	11,242,808	1,990,278	1,601,433	20,052,007	152,026	66,675	45,118,4
Accumulated amortization	-	(9,232,751)	(880,402)	(275,187)	(3,505,409)	(151,913)	-	(14,045,66
Total	**10,013,222**	**2,010,057**	**1,109,876**	**1,326,246**	**16,546,598**	**113**	**66,675**	**31,072,7**

	Consolidated							
	Indefinite useful life	Finite useful life						
	Goodwill	Software	Customer portfolio	Trademarks	Licenses	Other intangible assets	Software under development	To
<u>Annual amortization rate(%)</u>	**-**	**20.00**	**11.76 a 12.85**	**5.13 a 66.67**	**3.60 a 6.67**	**5.00 a 20.00**	**-**	
<u>Balances and changes:</u>								
Balance at 12.31.13	**10,225,280**	**1,987,634**	**1,358,442**	**1,410,453**	**14,474,566**	**336**	**46,348**	**29,503,0**
Additions (Capex)	-	497,730	-	-	2,770,320	-	267,339	3,535,3
Net disposals	-	(124)	-	-	-	-	-	(12
Net transfers	-	290,711	-	-	42,892	-	(247,012)	86,5
	-	(763,315)	(248,566)	(84,207)	(741,180)	(223)	-	(1,837,49

Amortization (Note 25)								
Balance at 12.31.14	**10,225,280**	**2,012,636**	**1,109,876**	**1,326,246**	**16,546,598**	**113**	**66,675**	**31,287,4**
Additions (Capex)	-	651,530	-	-	116	18,976	351,095	1,021,7
Net disposals	-	(52)	-	-	-	-	-	(5
Net transfers	-	346,146	-	-	-	(6,396)	(341,299)	(1,54
Amortization (Note 25)	-	(834,553)	(478,375)	(108,907)	(911,632)	(8,242)	-	(2,341,70
Business combination (a)	12,837,141	210,016	2,523,000	59,000	-	12,203	-	15,641,3
Balance at 12.31.15	**23,062,421**	**2,385,723**	**3,154,501**	**1,276,339**	**15,635,082**	**16,654**	**76,471**	**45,607,1**
At 12.31.15								
Cost	23,062,421	12,824,884	4,513,278	1,660,433	20,052,123	181,177	76,471	62,370,7
Accumulated amortization	-	(10,439,161)	(1,358,777)	(384,094)	(4,417,041)	(164,523)	-	(16,763,59
Total	**23,062,421**	**2,385,723**	**3,154,501**	**1,276,339**	**15,635,082**	**16,654**	**76,471**	**45,607,1**
At 12.31.14								
Cost	10,225,280	11,279,547	1,990,278	1,601,433	20,052,007	152,026	66,675	45,367,2
Accumulated amortization	-	(9,266,911)	(880,402)	(275,187)	(3,505,409)	(151,913)	-	(14,079,82
Total	**10,225,280**	**2,012,636**	**1,109,876**	**1,326,246**	**16,546,598**	**113**	**66,675**	**31,287,4**

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(a) These refer to amounts arising from business combinations, of which R$15,640,394 is of GVTPart., including goodwill (Note 4) and R$966 of TGLog (Note 12a).

b) Goodwill breakdown

	Company	Consolidated
Ajato Telecomunicação Ltda.	149	149
Spanish e Figueira (incorporado da TDBH) (a)	-	212,058
Santo Genovese Participações Ltda. (b)	71,892	71,892
Telefônica Televisão Participações S.A. (c)	780,693	780,693
Vivo Participações S. A. (d)	9,160,488	9,160,488
GVT Participações S. A. (e)	-	12,837,141
Total	**10,013,222**	**23,062,421**

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

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

(c) Goodwill generated upon acquisition of Telefônica Televisão Participações (formerly Navytree) merged in 2008, economically based on a future profitability analysis.

(d) Goodwill generated upon acquisition/merger of Vivo Participações in 2011.

(e) Goodwill generated upon acquisition of GVT Participações in 2015 (Note 4).

c) Goodwill impairment testing

The Company assessed recoverability of goodwill book value based on the value in use and discounted cash flow method.

The process for determination of the value in use involves the use of assumptions, judgments and estimates on cash flows, such as revenue, cost and expense growth rates, estimated future investments and working capital and discount rates. The assumptions about cash flow increase projections were based on management's estimates, market studies and macroeconomic projections. Future cash flows were discounted at the WACC (Weighted Average Cost of Capital) rate.

Consistent with the economic analysis techniques, the assessment of value in use is made for a period of five (5) years, and thereafter, considering the perpetuity of the assumptions based on the capacity of business continuity for indefinite time. Management considered that the period of 5 years is adequate, based on its past experience in preparing cash flow projections. Such understanding is in line with paragraph 35 of IAS 36 – Impairment of Assets.

The growth rate used to extrapolate the projections beyond the period of 5 years was 5.0% (4,5% in 2014). Estimated future cash flows were discounted at the pre tax rate of 15.05% (13,37% in 2014), also in nominal amounts.

Inflation rate for the period analyzed in the projected cash flows was 4.5%.

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

Based on annual impairment testing of the Company's intangible assets, prepared using projections considering the financial statements at December 31, 2015, growth projections and operating results for the year ended December 31, 2015, no impairment losses or evidence of losses were identified, since value in use is higher than net book value as of the assessment date.

<u>Key assumptions used in the calculation of value in use:</u>

The value in use is mainly impacted by the following assumptions: (i) revenue growth; (ii) evolution in operating margin; (iii) Capex; and (iv) the discount rate**.**

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(i) Revenue Growth: is based on the observation of the historical behavior of each revenue line, as well as trends in the evolution of the same based on market analysis. The evolution the revenue differ between product lines and services with a tendency of growth in data services and pay TV compared to voice services.

(ii) Evolution in operating margin: takes into account the historical margin estimate of price correction, as well as ongoing projects with the aim of greater cost efficiency. Another factor that can impact the operating margin is the level of aggressive competition.

(iii) Capex: we considered the projects in progress and the need to increase capacity and coverage in line with the evolution of revenue provided under the long-term plan. The volume of capex may also be impacted by inflation and currency fluctuations.

(iv) Discount rate: represent the assessment of risks in the current market. The calculation of the discount rate is based on specific circumstances of the company, being derived from the weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by investors of the Company. The cost of debt is based on loans with interest income that the Company is obligated to honor. The specific risk segment is incorporated by applying individual beta factors.

Sensitivity to changes in assumptions

The Company carries out a sensitivity analysis of the impairment test by considering reasoanable changes in the main assumptions used in such test.

The following maximum increases or decreases , expressed in percentage points (p.p) were assumed:

Changes in key assumptions, in percentage points (p.p)	
Financial variables	
Discount rate	+ / - 1.0
Perpetuity growth rates	+ / - 0.5
Operating variables	
OIBDA Margin	+ / - 2.0
Ratio of Capex/Revenues	+ / - 1.0

The sensitivity analysis performed at year-end 2015 indicates that there are no significant risks arising from reasonably possible changes in the financial and operating variables, considered individually. In other words, the Company considers that within the above ranges, reasonably wide, no impairment losses would be recognized over the carrying amounts.

15) PERSONNEL, SOCIAL CHARGES AND BENEFITS

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Salaries and wages	27,512	27,754	58,201	27,754
Social charges and benefits	265,100	267,736	383,834	271,082
Profit sharing	205,124	197,019	232,404	199,284
Share-based payment plans (Note 32)	39,898	18,793	39,987	18,793
Other compensation	2,197	193,297	4,228	193,297
Total	**539,831**	**704,599**	**718,654**	**710,210**
Current	520,023	585,770	698,846	591,381
Noncurrent	19,808	118,829	19,808	118,829

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16) TRADE ACCOUNTS PAYABLE

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Sundry suppliers	6,374,471	6,521,830	7,438,202	6,794,000
Amounts payable	148,793	103,016	165,648	102,915
Interconnection/ interlink (a)	421,650	445,192	520,816	445,192
Related parties (Note 30)	552,033	605,594	316,311	299,084
Total	**7,496,947**	**7,675,632**	**8,440,977**	**7,641,191**
Current accounts payable	7,496,947	7,675,632	8,373,235	7,641,191
Noncurrent accounts payable	-	-	67,742	-

(a) The amount recorded as noncurrent refers to the judicial proceeding filed against SMP operators in which GVT claims VU-M amount reduction. On October 15, 2007, GVT obtained an injunction for depositing with the courts the difference between R$0.2899 of R$ 0.3899 per minute of VC1 calls and the amount effectively charged by SMP operators. The amounts of such deposits are recognized in assets as "Judicial deposits and garnishments".

17) TAXES, CHARGES AND CONTRIBUTIONS

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Income taxes	**10,094**	**-**	**58,666**	**16,355**
Income and social contribution taxes payable (a)	10,094	-	58,666	16,355
Indirect taxes	**1,222,615**	**1,277,709**	**1,744,354**	**1,332,444**
ICMS	904,637	968,800	1,186,818	969,953
PIS and COFINS	215,235	194,627	382,123	236,556
Fust and Funttel	35,881	35,975	86,317	35,975
ISS, CIDE and other taxes	66,862	78,307	89,096	89,960
Total	**1,232,709**	**1,277,709**	**1,803,020**	**1,348,799**
Current	1,175,293	1,236,330	1,716,002	1,281,673

Noncurrent	57,416	41,379	87,018	67,126

18) DIVIDENDS AND INTEREST ON EQUITY (IOE)

a) Dividends and interest on equity receivable

Breakdown:

	Company	
	12.31.15	12.31.14
AIX	489	-
TData	18,156	174,726
Total	**18,645**	**174,726**

Changes:

	Company	Consolidated
Balance at 12.31.13	**60,346**	**1,140**
2013 supplementary dividends	186,100	-
Dividends and IOE received	(251,687)	(6,381)
Dividends and IOE net of IRRF	179,967	5,241
Balance at 12.31.14	**174,726**	**-**
2014 supplementary dividends	524,177	-
Interim dividends and IOE (net) in 2015	422,645	497
Dividends and IOE received	(1,102,903)	(8)
Balance at 12.31.15	**18,645**	**489**

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For the cash flow statement, interest on equity and dividends received from the subsidiary are allocated to "Investing Activities".

b) Dividends and interest on equity payable

Breakdown:

	Company/Consolidated	
	12.31.15	12.31.14
Telefónica Internacional S.A.	455,371	316,008
Telefónica S.A.	471,238	261,318
SP Telecomunicações Participações Ltda	345,689	198,350
Telefónica Chile S.A.	964	626
Non-controlling shareholders	936,100	719,019
Total	**2,209,362**	**1,495,321**

Changes:

	Company/ Consolidated
Balance at 12.31.13	**1,187,556**
2013 supplementary dividends	1,175,538
Interim dividends and IOE (net of IRRF)	1,778,200
Allocation of dividends and interest on equity	(207,442)
Payment of dividends and interest on equity	(2,446,621)
IRRF on IOE-exempt/immune shareholders	8,090
Balance at 12.31.14	**1,495,321**
2014 supplementary dividends	2,768,592
Interim dividends and IOE (net of IRRF)	1,754,036
Allocation of dividends and interest on equity	(137,273)

Payment of dividends and interest on equity	(3,678,665)
IRRF on IOE-exempt/immune shareholders	7,351
Balance at 12.31.15	**2,209,362**

For the cash flow statement, interest on equity and dividends paid to shareholders are recognized in "Financing Activities".

Interest on equity and dividends not claimed by shareholders expire within three years from the initial payment date. Should dividends and interest on equity expire, these amounts are recorded in retained earnings for later distribution.

19) PROVISIONS AND CONTINGENCIES

The Company and its subsidiaries are parties in administrative and judicial proceedings and labor, tax and civil claims filed in different courts. The management of the Company and its subsidiaries, based on the opinion of its legal counsel, recognized provisions for lawsuits for which an unfavorable outcome is considered probable.

Breakdown of and changes in provisions, whose unfavorable outcome is probable, in addition to contingent liabilities and provision for dismantling, are as follows:

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	Company					
	Provisions for contingencies					
	Labor	Tax	Civil and regulatory	Contingent liability (PPA) (a)	Provision for decommissioning (b)	Total
Balances at 12.31.13	**988,180**	**2,133,934**	**970,403**	**275,677**	**235,998**	**4,604,192**
Inflows	233,655	171,353	532,459	-	137,082	1,074,549
Write-offs due to payment	(199,668)	(67,632)	(229,341)	-	-	(496,641)
Write-offs due to reversal	(63,375)	(26,898)	(177,461)	(16,955)	(126,151)	(410,840)
Monetary restatement	54,334	169,141	101,411	18,886	-	343,772
Balances at 12.31.14	**1,013,126**	**2,379,898**	**1,197,471**	**277,608**	**246,929**	**5,115,032**
Inflows	359,539	173,785	745,302	-	323,982	1,602,608
Write-offs due to payment	(275,651)	(76,471)	(345,715)	-	-	(697,837)
Write-offs due to reversal	(61,562)	(55)	(214,966)	(14,733)	(272,160)	(563,476)
Monetary restatement	105,040	207,767	178,666	24,108	-	515,581
Balances at 12.31.15	**1,140,492**	**2,684,924**	**1,560,758**	**286,983**	**298,751**	**5,971,908**
At 12.31.15						
Current	121,562	-	772,507	-	-	894,069
Noncurrent	1,018,930	2,684,924	788,251	286,983	298,751	5,077,839
At 12.31.14						
Current	124,599	-	549,677	-	-	674,276
Noncurrent	888,527	2,379,898	647,794	277,608	246,929	4,440,756

	Consolidated					
	Provisions for contingencies					
	Labor	Tax	Civil and regulatory	Contingent liability (PPA) (a)	Provision for decommissioning (b)	Total
Balances at 12.31.13	**988,180**	**2,148,800**	**970,403**	**275,677**	**240,753**	**4,623,813**
Inflows	233,655	171,366	532,459	-	137,082	1,074,562
Write-offs due to payment	(199,668)	(67,632)	(229,341)	-	-	(496,641)

Write-offs due to reversal	(63,375)	(26,898)	(177,461)	(16,955)	(126,151)	(410,840)
Monetary restatement	54,334	170,405	101,411	18,886	-	345,036
Balances at 12.31.14	**1,013,126**	**2,396,041**	**1,197,471**	**277,608**	**251,684**	**5,135,930**
Inflows	388,306	202,445	787,938	23,311	331,174	1,733,174
Write-offs due to payment	(294,971)	(76,471)	(372,806)	-	-	(744,248)
Write-offs due to reversal	(63,133)	(55)	(220,907)	(14,733)	(272,161)	(570,989)
Monetary restatement	105,045	211,397	180,978	45,048	9,162	551,630
Business combinations (c)	17,778	2,834	80,377	512,648	85,562	699,199
Balances at 12.31.15	**1,166,151**	**2,736,191**	**1,653,051**	**843,882**	**405,421**	**6,804,696**
At 12.31.15						
Current	128,652	-	785,725	-	-	914,377
Noncurrent	1,037,499	2,736,191	867,326	843,882	405,421	5,890,319
At 12.31.14						
Current	124,599	-	549,677	-	-	674,276
Noncurrent	888,527	2,396,041	647,794	277,608	251,684	4,461,654

(a) This refers to contingent liabilities arising from PPA generated in acquisition of the controlling interest of Vivo Participações in 2011 and GVTPart. (Note 4).

(b) These refer to costs to be incurred to return the sites (locations for installation of base radio, equipment and real estate) to their respective owners in the same conditions as they were at the time of execution of the initial lease agreement.

(c) These refer to amounts arising from business combinations, of which R$697,160 of GVTPart. (Note 4) and R$2,039 of TGLog (Note 12a).

19.1) Provisions and labor contingencies

	Amounts involved			
	Company		Consolidated	
Nature/Degree of risk	12.31.15	12.31.14	12.31.15	12.31.14
Probable provisions	1,140,492	1,013,126	1,166,151	1,013,126
Possible contingencies	226,731	229,715	340,643	229,715

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Provisions and labor contingencies involve labor claims filed by former employees and employees at outsourced companies (the later alleging joint or subsidiary liability) claiming for, among other issues, overtime, salary equalization, post-retirement salary supplements, job hazard premium, additional for unhealthy work conditions and claims related to outsourced services.

The Company is also defendant in labor claims filed by retired former employees regarding the Medical Care Plan for Retired Employees (PAMA), which require, among other issues, the annulment of the change occurred in such plan. Most claims await decision by the Regional Labor Court of São Paulo and the Higher Labor Court. Based on the opinion of its legal advisors and the current jurisdictional benefits, management considers this claim as a possible risk. No amount has been allocated for these claims, since in the case of loss, it is not possible to estimate the Company's loss.

Additionally, the Company is party to public civil actions filed by the Department of Labor, in respect to the decision to restrain the Company from continuing to hire outsourced companies to carry out the Company's main activities. No amounts were allocated to the possible likelihood of an unfavorable outcome related to these public civil actions in the table above, since in these phases, in the event of loss, it is not possible to estimate the Company's monetary loss.

19.2) Provisions and tax contingencies

	Amounts involved			
	Company		Consolidated	
Nature/Degree of risk	12.31.15	12.31.14	12.31.15	12.31.14
Probable provisions	2,684,924	2,379,898	2,736,191	2,396,041
Federal	2,539,050	2,302,029	2,558,238	2,318,172
State	127,505	61,134	156,444	61,134
Municipal	18,369	16,735	19,977	16,735
ANATEL	-	-	1,532	-
Possible contingencies	23,790,290	21,186,885	26,620,066	21,401,796
Federal	5,164,158	4,973,141	5,908,994	4,981,909

State	11,317,423	9,805,466	12,921,976	9,930,020
Municipal	730,030	658,468	769,113	660,084
ANATEL	6,578,679	5,749,810	7,019,983	5,829,783

Provisions for probable tax contingencies

Federal taxes

The Company and/or its subsidiaries are parties to administrative and judicial proceedings relating to: (i) claims resulting from the non-ratification of compensation and refund requests formulated by the Company; (ii) social contributions referring to supposed failure to pay 11% on the value of invoices received from service providers hired through transfer of labor; (iii) CIDE levied on the remittance of amounts abroad related to technical and administrative assistance and similar services, as well as royalties; (iv) non-inclusion of interconnection and EILD expenses in the FUST base; (v) contribution to Empresa Brasileira de Comunicação, created by Law No. 11652/08; (vi) TFI/TFF on mobile stations; (vii) IRRF on interest on equity; (viii) Price for Numbering Resources Management (PPNUM) by ANATEL instituted by Resolution No. 451/06; (ix) Social Investment Fund (Finsocial) offset amounts; (x) failure to pay withholding social contribution tax levied on services rendered, remuneration, salaries and other salary bases; (xi) COFINS – requirement resulting from non-inclusion of financial income into the tax base; (xii) additional charges to the PIS and COFINS tax base, as well as additional charges to COFINS required by Law No. 9718/98; and (xiii) Tax on Net Income (ILL).

At December 31, 2015, provisioned consolidated amounts totaled R$ 2,558,238 (R$ 2,318,172 at December 31, 2014).

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State taxes

The Company and/or its subsidiaries are parties to administrative and judicial proceedings in progress referring to (i) ICMS tax credits on electric power and other ICMS credits without documentation (ii) ICMS not levied on telecommunication services; (iii) disallowance of ICMS tax incentives for cultural projects; (iv) environmental administrative fine; (v) disallowance of ICMS credit referring to Agreement 39; (vi) co-billing; (vii) rate difference; (viii) reversal of ICMS credit on fixed assets; and (ix) ICMS on rent of infrastructure necessary for Internet (data) services.

At December 31, 2015, provisioned consolidated amounts totaled R$ 156,444 (R$ 61,134 at December 31, 2014).

Municipal taxes

The Company and/or its subsidiaries are parties to various municipal tax proceedings referring to (i) IPTU; (ii) ISS levied on real estate lease services and noncore and supplementary activities; (iii) surveillance, control, and monitoring fee (TVCF); and (iv) withholding of ISS on outsourced services.

At December 31, 2015, provisioned consolidated amounts totaled R$ 19,977 (R$ 16,735 at December 31, 2014).

ANATEL

Telecommunications Technology Development Fund (FUNTTEL)

GVT filed administrative proceedings that are pending judgment at lower administrative level. Such proceedings concern the collection of contributions to FUNTTEL on other revenues (not related to telecom services), as well as on income and expenses transferred to other operators (interconnection), as well as discounts granted and other taxes.

At December 31, 2015, the provisioned consolidated amount totals R$1,532.

Possible tax contingencies

According to the understanding of Management and its legal counsel, there is the likelihood of loss in federal, state and municipal proceedings, in addition to the proceedings with ANATEL, as follows:

Federal taxes

The Company and/or its subsidiaries are parties to various administrative and judicial proceedings, at the federal level, which are awaiting decisions in various court levels.

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Among these lawsuits, the following are highlighted: (i) protest letters due to non-ratification of compensation requests made by the Company; (ii) social security contribution (INSS) on compensation payment for salary devaluation arising from losses caused by “Plano Verão” (Summer Plan) and “Plano Bresser” (Bresser Plan), SAT (Occupational Accident Insurance), Social Security and payables to third parties (INCRA and SEBRAE), supply of meals to employees, 11% retention (labor assignment); (iii) IRRF on the funds remittance abroad related to technical services and to administrative support and similar services, as well as royalties; (iv) PIS levied on roaming; (v) CPMF levied on operations resulting from the technical cooperation agreement with the National Treasury Department (STN) (offsetting through the Integrated System of Federal Government Financial Administration - SIAFI) and on foreign-exchange contracts required by the Brazilian Central Bank; (vi) IRPJ and CSLL related to deductions on revenues from reversal of provisions; (vii) IRPJ and CSLL - disallowance of costs and sundry expenses not evidenced; (viii) deductions of COFINS from loss in swap transactions; (ix) PIS / COFINS accrual basis versus cash basis; (x) IRPJ payable in connection with allocation of excess funds to Northeast Investment Fund (FINOR), Amazon Region Investment Fund (FINAM) or Economic Recovery Fund of Espírito Santo State (FUNRES); and (xi) IRPJ on derivative operations; (xii) IRPJ and CSLL – disallowance of expenses related to the goodwill paid in the acquisition of Celular CRT S.A., goodwill arising from the privatization process and corporate restructuring of Vivo S.A. and goodwill arising from merger of Navytree and TDBH; (xiii) goodwill arising from the acquisition of GVT Holding by Vivendi, (xiv) ex-tariff, revocation of the benefit of CAMEX Resolution No. 6, increase in the import duty from 4% to 28%; (xv) IPI levied on shipment of fixed access units from the Company's establishment to customers under the free lease system; (xvi) PIS and COFINS levied on aggregate-value services; (xvii) INSS – Stock Options: requirement of social security contributions on the amounts paid by the Group companies to their employees under the stock option plan; and (xviii) IOF required on loan, intercompany and credit transactions.

At December 31, 2015, involved consolidated amounts totaled R$ 5,908,994 (R$ 4,981,909 at December 31, 2014).

State taxes

The Company and/or its subsidiaries are parties to various administrative and judicial proceedings related to ICMS, at the state level, which are awaiting decisions in various court levels.

Among these lawsuits, the following are highlighted: (i) provision of facility, utility and convenience services and rental of the "Speedy" service modem; (ii) international calls (DDI); (iii) undue credit related to the acquisition of items intended to property and equipment and lack of proportionate credit reversal referring to the acquisition of property and equipment items; (iv) amounts unduly appropriated as ICMS tax credits; (v) service provided outside São Paulo state with ICMS paid to São Paulo State; (vi) co-billing, (vii) tax substitution with a fictitious tax base (tax guideline); (viii) use of credits related to acquisition of electric power; (ix) secondary activities, value added and supplementary services (Agreement 69/98); (x) tax credits related to opposition/challenges referring to telecommunications services not provided or mistakenly charged (Agreement 39/01); (xi) shipment of goods with prices lower than acquisition prices (unconditional discounts); (xii) deferred collection of ICMS - interconnection (DETRAF – Traffic and Service Provision Document); (xiii) credits derived from tax benefits granted by other states; (xiv) disallowance of tax incentives related to cultural projects; (xv) transfers of assets among business units owned by the Company; (xvi) communications service tax credits used in provision of services of the same nature; (xvii) card donation for prepaid service activation; (xviii) reversal of credit from return and free lease in connection with assignment of networks (used by the Company itself and exemption from public bodies); (xix) DETRAF fine, (xx) ICMS on own consumption; (xxi) ICMS on exemption of public bodies; (xxii) issue of invoices with negative ICMS amounts; (xxiii) new tax register bookkeeping without previous authorization by tax authorities; (xxiv) membership; and (xxv) services not measured.

At December 31, 2015, involved consolidated amounts totaled R$ 12,921,976 (R$ 9,930,020 at December 31, 2014).

Municipal taxes

The Company and/or its subsidiaries are parties to various administrative and judicial proceedings, at the local level, which are awaiting decisions in various court levels.

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Among these lawsuits, the following are highlighted: (i) ISS – secondary activities, value added and supplementary services; (ii) withholding ISS; (iii) IPTU; (iv) Land Use Fee; (v) municipal fees; (vi) tariff for Use of Mobile Network (TUM), infrastructure lease; (vii) advertising services; (viii) services provided by third parties; (ix) business management consulting services provided by Telefónica Internacional (TISA); (x) ISS tax levied on caller ID services and on cell phone activation and (xi) ISS on continuous rendered service, provision, reversal and cancelled invoices.

At December 31, 2015, involved consolidated amounts totaled R$ 769.113 (R$ 660,084 at December 31, 2014).

ANATEL

Universal Telecommunication Services Fund (FUST)

Petitions for injunctions were filed seeking the right to not include expenses with interconnection and Industrial Use of Dedicated Line in FUST tax base, according to Abridgment No. 7, of December 15, 2005, as it does not comply with the provisions contained in sole paragraph of article 6 of Law No. 9998, which are awaiting a decision in 2nd court level.

A number of delinquency notices referring to debit entry were issued by ANATEL at the administrative level to set up the tax credit related to interconnection, EILD and other revenues that are not earned from the provision of telecommunications services.

At December 31, 2015, involved consolidated amounts totaled R$ 3,647,291 (R$ 3,139,254 at December 31, 2014).

Telecommunications Technology Development Fund (FUNTTEL)

The Company and its subsidiary are parties to administrative and judicial proceedings which are waiting to be tried at the lower administrative court and the court of appeals. Such proceedings concern the collection of contributions to FUNTTEL on other revenues (not related to telecom services), as well as on income and expenses transferred to other operators (interconnection).

At December 31, 2015, involved consolidated amounts totaled R$ 911,836 (R$ 716,369 at December 31, 2014).

Telecommunications Inspection Fund (FISTEL)

Upon extension of the effective license period to use telephone switches in connection with use of STFC (landline phone carriers) and extension of the right to use radiofrequency in connection with wireless service (wireless carriers), ANATEL charges the Installation Inspection Fee (TFI).

This collection is based on ANATEL’s understanding that such extension would represent a taxable event for TFI. The Company understands that such collection is unjustified, and separately challenged the aforesaid fee in court.

At December 31, 2015, involved consolidated amounts totaled R$ 2,455,229 (R$ 1,971,290 at December 31, 2014), without the respective judicial deposit.

Public Price for Numbering Resource Management (PPNUM)

The Company, along with other wireless carriers in Brazil, is challenging in court the tariff charged by ANATEL for use by such carriers of the numbering resources managed by the agency. In view of the collections, the Company made a judicial deposit referring to the amounts due. On April 23, 2009, the carriers received a favorable sentence and the lawsuit is currently waiting to be tried at the court of appeals.

At December 31, 2015, involved consolidated amounts totaled R$ 5,627 (R$ 2,870 at December 31, 2014).

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19.3) Provisions, civil and regulatory contingencies

	Amounts involved			
	Company		Consolidated	
Nature/Degree of risk	12.31.15	12.31.14	12.31.15	12.31.14
Probable provisions	1,560,758	1,197,471	1,653,051	1,197,471
Civil	965,730	772,658	1,010,356	772,658
Regulatory	595,028	424,813	642,695	424,813
Possible contingencies	6,020,956	4,484,947	6,297,944	4,484,947
Civil	2,488,761	1,873,607	2,581,838	1,873,607
Regulatory	3,532,195	2,611,340	3,716,106	2,611,340

Provisions for probable civil contingencies

- The Company and/or its subsidiaries are parties to proceedings that involve right to receive supplementary amounts from shares calculated in relation to the network expansion plan after 1996 (supplement of shares proceedings). These proceedings involve various phases: 1st level, Court of Justice and Supreme Court of Justice. At December 31, 2015, provisioned consolidated amounts totaled R$ 190,004 (R$ 138,654 at December 31, 2014).

- The Company and/or its subsidiaries are parties to various civil proceedings related to consumers in administrative and judicial spheres, referring to non-compliance with services and/products sold. At December 31, 2015, provisioned consolidated amounts totaled R$ 435,782 (R$ 325,571 at December 31, 2014).

- The Company and/or its subsidiaries are parties to various civil proceedings of non-consumer nature in administrative and judicial spheres, all related to the ordinary course of business. At December 31, 2015, provisioned consolidated amounts totaled R$ 384,570 (R$ 308,433 at December 31, 2014).

Provisions for probable regulatory contingencies

The Company and GVTPart. are parties to administrative proceedings against ANATEL, which were filed based on alleged noncompliance with obligations set forth in industry regulations, as well as in legal claims discussing sanctions by ANATEL at the administrative level. At December 31, 2015, provisioned consolidated amounts totaled R$ 642,695 (R$ 424,813 at December 31, 2014).

Possible civil contingencies

According to the Company's management and legal counsel, the likelihood of loss of the following proceedings is possible.

- Public Interest Suit in which the Company is involved referring to the Community Telephone Plan (PCT), about the right for indemnification of the acquirers of expansion plans, not receiving shares for financial investments made in the city of Mogi das Cruzes, whose total consolidated amount approximates to R$421,085 at December 31, 2015 (R$336,758 at December 31, 2014). São Paulo Court of Justice (TJSP) changed its decision, and judged this matter groundless. The carriers association of Mogi das Cruzes (claimant) filed a special appeal to reverse that decision, which is currently waiting for a decision. On December 7, 2015, the appeal filed by the carriers association of Mogi das Cruzes was dismissed by the court of appeals.

- Collective Action filed by SISTEL Participants' Association (ASTEL) in the state of São Paulo, in which SISTEL associates in the state of São Paulo challenge the changes made in the Medical Care Plan for Retired Employees (PAMA) and claim for the reestablishment of the prior status quo. This proceeding is still in the appeal phase, and awaits a decision as regards the possible admission of the Special and Additional Appeals in connection with the Court of Appeals' decision, which changed the decision rendering the matter groundless. The amount cannot be estimated, and the claims cannot be settled due to their unenforceability, in that it entails a return to the prior plan conditions.

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• Public Interest Suits filed by ASTEL, in the state of São Paulo, and by FENAPAS, both against SISTEL, the Company and other carriers, in order to annul spin-off of the private pension plan PBS, alleging, in short, the "windup of the supplementary private pension plan of SISTEL Foundation", which led to various specific mirror PBS plans, corresponding to allocation of funds from technical surplus and tax contingencies existing at the time of the spin-off. The amount cannot be estimated, and the claims cannot be settled due to their unenforceability because this involves the return of the spun-off assets of SISTEL referring to telecommunication carries of the former Telebrás System.

• The Public Prosecutor's Office of São Paulo State began a public class action claiming pain and suffering and damages suffered by all consumers of telecommunications services from 2004 to 2009 due to the bad quality of services and failures of the communications system. The Public Prosecutor's Office suggested that the indemnification to be paid should be R$ 1 billion. The decision handed down on April 20, 2010 imposes the payment of indemnification for damages caused to all consumers who have filed a suit for such damages.

Conversely, in the event that the number of claiming consumers is not in line with the extent of damages, after the lapsing of one year, the judge determined that the amount of R$ 60 million should be deposited in the Special Expenses Fund to Recover Natural Rights Damages (Fundo Especial de Despesa de Reparação de Interesses Difusos Lesados). It is not possible to estimate the number of consumers who will individually file suits, or the amounts claimed thereby. The parties filed an appeal on the merits of the case. The judgment effects are in abeyance. No amount has been assigned to the possible likelihood of an unfavorable outcome in connection with this action, since, in the case of loss, estimating the corresponding amount payable by the Company is not practicable at this time. Likewise, establishing a provision for contingency equivalent to the amount sought is not possible. On April 13, 2015, the Company's appeal on the merits of the case was judged, and the decision handed down by the lower court was changed, by unanimous vote. Such decision sentenced the Company to pay for damages and pain and suffering caused to all consumers affected by "problems" in the services provided. The Office of the Public Prosecutor filed appeal to higher and supreme court against which counterarguments were filed.

• The Company is party to other civil claims, at several levels, related to service rendering. Such claims have been filed by individual consumers, civil associations representing consumer rights or by the Bureau of Consumer Protection (PROCON), as well as by the Federal and State Public Prosecutor's Office. The Company is also party to other claims of several types related to the normal course of business. At

December 31, 2015, possible consolidated amounts totaled R$ 2,146,850 (R$ 1,525,908 at December 31, 2014).

- TGLog is a party to a civil execution proceeding filed with the 3rd Civil Court of Barueri – SP owing to alleged non-payment of transportation service bills. TGLog alleges that it made legitimate discounts owing to contract breaches and losses arising from damages to goods of its customers transported by claimant, which are also subject matter of another proceeding. At December 31, 2015, the case amounted to R$1,022.

- The Company has received fines regarding the noncompliance with SAC Decree. We currently have various actions (administrative and judicial proceedings). At December 31, 2015, consolidated amounts totaled R$ 12,881 (R$ 10,941 at December 31, 2014).

- Intellectual Property: Lune Projetos Especiais Telecomunicação Comércio e Ind. Ltda. (Lune), a Brazilian company, proposed the lawsuit on November 20, 2001 against 23 wireless carriers claiming to own the patent for caller ID and the trademark "Bina". The purpose of that lawsuit was to interrupt provision of such service by carriers and to seek indemnification equivalent to the amount paid by consumers for using the service.

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An unfavorable sentence was passed determining that the Company should refrain from selling mobile phones with Caller ID service (Bina), subject to a daily fine of R$ 10,000 in case of noncompliance. Furthermore, according to the sentence passed, the Company must pay indemnification for royalties, to be calculated in settlement. Motions for Clarification were opposed by all parties and Lune’s motions for clarification were accepted since an injunctive relief in this stage of the proceedings was deemed applicable. Bill of review appeal in view of the current decision which granted a stay of execution suspending that unfavorable decision until final judgment of the review. Bill of review for appeal at sentence phase pending decision. There is no way to determine the extent of potential liabilities with respect to this claim.

- The Company and other wireless carriers are defendants in several lawsuits filed by the Public Prosecutor’s Office and consumer associations to challenge imposition of a period to use prepaid minutes. The plaintiffs allege that the prepaid minutes should not expire after a specific period. Conflicting decisions were handed down by courts on the matter, even though we believe that our criteria for the period determination comply with ANATEL standards. Based on the legal counsel’s opinion, collective actions have a remote likelihood of loss.

Possible regulatory contingencies

According to the Company’s management and legal counsel, the likelihood of loss of the following regulatory civil proceedings is possible.

- The Company and GVTPart. are parties to administrative proceedings filed by ANATEL alleging noncompliance with the obligations set forth in industry regulations, as well as legal claims which discuss the sanctions applied by ANATEL at the administrative level. At December 31, 2015, consolidated amounts totaled R$ 3,716,106 (R$ 2,611,340 of the Company at December 31, 2014).

• Administrative and legal proceedings discussing payment of 2% charge on revenue from interconnection services due to the extension of right of use of SMP-related radio frequencies. Under clause 1.7 of the Authorization Terms that grant right of use of SMP-related radiofrequencies, the extension of right of use of such frequencies entails payment every two years, during the extension period (15 years), of a 2% charge calculated on net revenue from the basic and alternative service plans of the service company, determined in the year before that of payment.

However, ANATEL determined that the 2% charge should be calculated on revenue from service plans and also on revenue from interconnection services and other operating income, which is not provided for by clause 1.7 of the referred to Authorization Terms.

Considering, based on the provisions of the Authorization Terms, that revenue from interconnection services should not be included in the calculation of the 2% charge for radiofrequency use right extension, the Company filed administrative and legal proceedings challenging these charges, based on ANATEL's position.

19.4) Guarantees

The Company and its subsidiaries granted guarantees for tax, civil and labor proceedings, as follows:

	Consolidated					
	12.31.15			12.31.14		
	Property and equipment	Judicial deposits and garnishments	Letters of guarantee	Property and equipment	Judicial deposits and garnishments	Letters of guarantee
Civil, labor and tax	163,802	5,753,463	2,750,864	130,000	4,745,225	2,537,608
Total	**163,802**	**5,753,463**	**2,750,864**	**130,000**	**4,745,225**	**2,537,608**

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At December 31, 2015, in addition to the guarantees presented above, the Company and its subsidiaries had amounts under short-term investment frozen by courts (except for loan-related investments), in the consolidated amount of R$ 71,059 (R$ 64,899 at December 31, 2014).

20) DEFERRED REVENUE

a) Breakdown

	Company		Consolidated	
	12.31.15	12.31.14	12.31.15	12.31.14
Services and goods (a)	466,943	764,791	466,943	764,791
Disposal of PP&E (b)	87,906	124,247	87,906	124,247
Activation revenue (c)	70,507	91,954	72,737	106,209
Customer loyalty program (d)	95,893	92,670	95,893	92,670
Government grants (e)	133,099	77,113	133,099	77,113
Donations of equipment (f)	8,281	8,947	8,281	8,947
Other revenues (g)	58,935	25,824	58,935	25,824
Total	**921,564**	**1,185,546**	**923,794**	**1,199,801**
Current	562,601	704,589	564,557	717,019
Noncurrent	358,963	480,957	359,237	482,782

(a) It refers to the balances of agreements of prepaid services revenue and multi-element operations, which are recognized in P&L to the extent that services are provided to customers. Includes the amounts of the agreement the Company entered into for the industrial use of its mobile network by another SMP carrier in Regions I, II and III of the General Authorization Plan (PGA), which is intended solely to the rendering of SMP services by the carrier to its users.

(b) Refers to net balance of the residual value from disposal of non-strategic towers and rooftops, to be transferred to P&L upon compliance of conditions for recognition in books.

(c) Refers to the deferral of activation revenue (fixed) recognized in P&L over the estimated period in which the customer stays in the plant.

(d) Refers to the loyalty point program maintained by the Company, which allows customers to accumulate points when paying their bills referring to use of services offered. The balance represents the Company's estimate of customers' exchanging points for goods and/or services in the future.

(e) Refers to government grant deriving from funds raised with BNDES in a specific credit line, used in the acquisition of domestic equipment and registered at BNDES (Finame) and applied in projects to expand the network capacity, which have been amortized by the useful life of equipment and grants resulting from projects related to state taxes, which are being amortized under contractual terms.

(f) Refers to the balances of network equipment donations from suppliers, which are amortized over the useful life of the referred to equipment.

(g) Includes amounts of the reimbursement for costs for leaving radio frequency sub-bands 2,500MHz to 2,690MHz due to cancellation of the Multichannel Multipoint Distribution Service (MMDS).

b) Changes

	Company	Consolidated
Balance at 12.31.13	**1,065,194**	**1,071,212**
Inflows	10,628,354	10,641,475
Disposals	(10,508,002)	(10,512,886)
Balance at 12.31.14	**1,185,546**	**1,199,801**
Inflows	11,333,889	11,369,987
Disposals	(11,597,871)	(11,645,994)
Balance at 12.31.15	**921,564**	**923,794**
Current	562,601	564,557
Noncurrent	358,963	359,237

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21) LOANS, FINANCING, DEBENTURES, FINANCE LEASE AND CONTINGENT CONSIDERATION

a) Breakdown

	Information at December 31, 2015			Company					
				12.31.15			12.31.14		
	Currency	Annual interest rate	Maturity	Current	Noncurrent	Total	Current	Noncurrent	To
Local currency				**1,740,266**	**5,075,504**	**6,815,770**	**1,445,347**	**5,116,491**	**6,561,8**
Loans and financing - financial institutions				**473,807**	**1,034,754**	**1,508,561**	**665,848**	**1,498,983**	**2,164,8**
Financing – BNDES	URTJLP (a)	TJLP+ 0 to 9%	7/15/19	328,989	898,735	1,227,724	510,323	1,224,052	1,734,3
Financing – BNDES	R$	2.5 to 8.7%	1/15/23	90,779	136,019	226,798	87,495	220,903	308,3
Financing – BNB	R$	10.00%	10/30/16	54,039	-	54,039	68,030	54,028	122,0
Financing - Suppliers	**R$**		**10/22/16**	**1,113,244**	**-**	**1,113,244**	**-**	**-**	
Finance lease	**R$**		**8/31/33**	**32,291**	**239,239**	**271,530**	**24,452**	**205,892**	**230,3**
Debentures				**120,924**	**3,423,790**	**3,544,714**	**755,047**	**3,411,616**	**4,166,6**
4th issue – Series 2	R$	106.8% of CDI	10/15/15	-	-	-	655,738	-	655,7
4th issue – Series 3	R$	IPCA+4.00%	10/15/19	292	33,172	33,464	270	30,915	31,1
	R$	IPCA+0.50%	7/5/21	-	91,608	91,608	-	82,186	82,1

1st issue – Minas Comunica									
3rd issue	R$	100% of CDI + 0.75%	9/10/17	87,217	1,999,645	2,086,862	71,825	1,999,433	2,071,2
4th issue	R$	100% of CDI + 0.68%	4/25/18	33,415	1,299,365	1,332,780	27,214	1,299,082	1,326,2
contingent consideration	R$			**-**	**377,721**	**377,721**	**-**	**-**	
Foreign currency				**191,695**	**1,490,273**	**1,681,968**	**819,171**	**418,251**	**1,237,4**
Loans and financing - Financial institutions				**191,695**	**1,490,273**	**1,681,968**	**819,171**	**418,251**	**1,237,4**
Loans – BEI	US$			-	-	-	716,963	-	716,9
Financing – BNDES	UMBND (b)	ECM (c) + 2.38%	7/15/19	159,897	434,221	594,118	101,933	418,251	520,1
Resolution 4131	US$	2.05% and Libor + 2.00%	12/18/17	31,798	1,056,052	1,087,850	-	-	
BBVA commission	R$			-	-	-	275	-	2
Total				**1,931,961**	**6,565,777**	**8,497,738**	**2,264,518**	**5,534,742**	**7,799,2**
Loans, financing and Finance lease				1,811,037	2,764,266	4,575,303	1,509,471	2,123,126	3,632,5
Debentures				120,924	3,423,790	3,544,714	755,047	3,411,616	4,166,6
Contingent consideration				-	377,721	377,721	-	-	
Total				**1,931,961**	**6,565,777**	**8,497,738**	**2,264,518**	**5,534,742**	**7,799,2**

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	Information at December 31, 2015			Consolidated 12.31.15			12.31.14		
	Currency	Annual interest rate	Maturity	Current	Noncurrent	Total	Current	Noncurrent	To
Local currency				**2,151,296**	**6,388,026**	**8,539,322**	**1,445,347**	**5,116,491**	**6,561,8**
Loans and financing - financial institutions				**765,601**	**2,325,920**	**3,091,521**	**665,848**	**1,498,983**	**2,164,8**
Financing – BNDES	URTJLP (a)	TJLP+ 0 to 9%	1/15/23	571,223	1,838,275	2,409,498	510,323	1,224,052	1,734,3
Financing – BNDES	R$	2.5 to 8.7%	1/15/23	106,008	298,634	404,642	87,495	220,903	308,3
Financing – BNDES	R$	IPCA + 2.95% + TR p.a.	7/15/16	30,722	-	30,722	-	-	
Financing – BNDES	R$	SELIC ACUM. D-2 + 2.32% p.a.	1/15/23	710	146,815	147,525	-	-	
Financing – BNB	R$	7.0% to 10%	8/18/22	56,938	42,196	99,134	68,030	54,028	122,0
Financing - Suppliers	**R$**		**10/22/16**	**1,228,682**	**-**	**1,228,682**	**-**	**-**	
Finance lease	**R$**		**8/31/33**	**36,089**	**260,595**	**296,684**	**24,452**	**205,892**	**230,3**
Debentures				**120,924**	**3,423,790**	**3,544,714**	**755,047**	**3,411,616**	**4,166,6**
4th issue – Series 2	R$	106.8% do CDI	10/15/15	-	-	-	655,738	-	655,7
4th issue – Series 3	R$	IPCA+4.00%	10/15/19	292	33,172	33,464	270	30,915	31,1
	R$	IPCA+0.50%	7/5/21	-	91,608	91,608	-	82,186	82,1

1st issue – Minas Comunica									
3rd issue	R$	100% of CDI + 0.75%	9/10/17	87,217	1,999,645	2,086,862	71,825	1,999,433	2,071,2
4th issue	R$	100% of CDI + 0.68%	4/25/18	33,415	1,299,365	1,332,780	27,214	1,299,082	1,326,2
Contingent consideration	R$			**-**	**377,721**	**377,721**	**-**	**-**	
Foreign currency				**191,695**	**1,490,273**	**1,681,968**	**819,171**	**418,251**	**1,237,4**
Loans and financing - financial institutions				**191,695**	**1,490,273**	**1,681,968**	**819,171**	**418,251**	**1,237,4**
Loans – BEI	US$			-	-	-	716,963	-	716,9
Financing – BNDES	UMBND (b)	ECM (c) + 2.38%	7/15/19	159,897	434,221	594,118	101,933	418,251	520,1
Resolution 4131	US$	2.05% and Libor + 2.00%	12/18/17	31,798	1,056,052	1,087,850			