

TELEFONICA BRASIL S.A.
Form 6-K
May 17, 2017

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

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

For the month of May, 2017

Commission File Number: 001-14475

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

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

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

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

Form 20-F

Form 40-F

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

Yes

No

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

Yes

No

X

(A free translation of the original in Portuguese)

Telefônica Brasil S.A.

Quarterly Information (ITR)

at March 31, 2017

and report on review of quarterly information

(A free translation of the original in Portuguese)

Report on review of quarterly information

To the Board of Directors and Shareholders

Telefônica Brasil S.A.

Introduction

We have reviewed the accompanying parent company and consolidated interim accounting information of Telefônica Brasil S.A. ("Company"), included in the Quarterly Information Form (ITR) for the quarter ended March 31, 2017, comprising the balance sheet at that date and the statements of income, comprehensive income, changes in equity and cash flows for the quarter then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of the parent company interim accounting information in accordance with the accounting standard CPC 21, Interim Financial Reporting, of the Brazilian Accounting Pronouncements Committee (CPC), and of the consolidated interim accounting information in accordance with CPC 21 and International Accounting Standard (IAS) 34 - Interim Financial Reporting issued by the International Accounting Standards Board (IASB), as well as the presentation of this information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of the Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim accounting information based on our review.

Scope of review

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

Conclusion on the parent company interim information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying parent company interim accounting information included in the Quarterly Information referred to above has not been prepared, in all material respects, in accordance with CPC 21 applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the CVM.

Conclusion on the consolidated interim information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim accounting information included in the Quarterly Information referred to above has not been prepared, in all material respects, in accordance with CPC 21 and IAS 34 applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the CVM.

Other matters

Statements of value added

We have also reviewed the parent company and consolidated statements of value added for the quarter ended March 31, 2017. These statements are the responsibility of the Company's management and are required to be presented in accordance with standards issued by the CVM applicable to the preparation of Quarterly Information (ITR) and are considered supplementary information under IFRS, which do not require the presentation of the statement of value added. These statements have been submitted to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they have not been prepared, in all material respects, in a manner consistent with the parent company and consolidated interim accounting information taken as a whole.

Audit and review of prior-year information

The Quarterly Information Form (ITR) mentioned in the first paragraph includes accounting information, presented for comparison purposes, related to the statements of income, changes in equity, cash flow and value added for the quarter ended March 31, 2016, obtained from the Quarterly Information Form (ITR) for that quarter, and also to the balance sheet as at December 31, 2016, obtained from the financial statements at December 31, 2016. The review of the Quarterly Information (ITR) for the quarter ended March 31, 2016 and the audit of the financial statements for the year ended December 31, 2016 were conducted by other independent auditors, whose unqualified review and audit reports were dated April 25, 2016 and February 17, 2017, respectively.

São Paulo, May 9, 2017

PricewaterhouseCoopers

Auditores Independentes

CRC 2SP000160/O-5

Estela Maris Vieira de Souza

Contadora CRC 1RS046957/O-3 "S" SP

TELEFÔNICA BRASIL S.A.**Balance Sheets****At March 31, 2017 and December 31, 2016****(In thousands of reais)**

ASSETS	Note	Company		Consolidated		LIABILITIES AND EQUITY	Note	Company	
		03.31.17	12.31.16	03.31.17	12.31.16			03.31.17	12.31.16
Current assets		18,962,757	17,482,265	20,017,177	18,398,995	Current liabilities		18,704,777	20,280,286
Cash and cash equivalents	3	5,543,344	4,675,627	6,285,004	5,105,110	Personnel, social charges and benefits	13	602,270	746,798
Trade accounts receivable, net	4	8,249,786	8,282,685	8,524,033	8,701,688	Trade accounts payable	14	6,788,816	7,539,395
Inventories, net	5	359,671	368,151	397,539	410,413	Taxes, charges and contributions	15	1,658,707	1,698,334
Taxes recoverable	6.a	2,860,862	2,952,622	2,906,313	3,027,230	Dividends and interest on equity	16	2,579,804	2,195,031
Judicial deposits and garnishments	7	321,598	302,349	321,672	302,424	Provisions	17	1,276,660	1,183,623
Prepaid expenses	8	1,160,921	336,508	1,171,165	343,092	Deferred revenue	18	396,525	428,488
Derivative financial instruments	30	75,918	68,943	75,918	68,943	Loans and financing	19	2,330,372	2,542,975
Other assets	9	390,657	495,380	335,533	440,095	Debentures	19	2,124,713	2,120,504
						Derivative financial instruments	30	220,043	183,212
Non-current assets		84,208,779	84,475,240	83,338,047	83,667,264	Other liabilities	20	726,867	1,641,926
Short-term investments pledged as collateral		82,246	78,153	82,268	78,166				
Trade accounts receivable, net	4	185,516	200,537	283,506	305,411	Non-current liabilities		14,685,300	12,432,800
	6.a	489,892	474,240	494,493	476,844		13	14,256	11,016

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Taxes recoverable						Personnel, social charges and benefits			
Deferred taxes	6.b	-	-	133,438	27,497	Trade accounts payable	14	72,231	71,907
Judicial deposits and garnishments	7	6,205,430	5,974,733	6,281,188	6,049,142	Taxes, charges and contributions	15	20,213	20,996
Prepaid expenses	8	30,850	35,340	31,721	36,430	Deferred taxes	6.b	249,787	88,695
Derivative financial instruments	30	124,121	144,050	124,121	144,050	Provisions	17	6,889,446	6,591,493
Other assets	9	63,686	53,363	66,487	55,565	Deferred revenue	18	473,665	511,786
Investments	10	1,568,427	1,407,155	85,964	85,745	Loans and financing	19	2,935,137	3,126,792
Property, plant and equipment, net	11	31,590,326	31,837,549	31,673,365	31,924,918	Debentures	19	3,432,646	1,433,803
Intangible assets, net	12	43,868,285	44,270,120	44,081,496	44,483,496	Derivative financial instruments	30	2,312	1,404
						Other liabilities	20	595,607	574,908
						Equity		69,781,459	69,244,419
						Capital	21	63,571,416	63,571,416
						Capital reserves	21	1,272,581	1,272,581
						Income reserves	21	2,477,632	2,474,974
						Other comprehensive income	21	14,764	11,461
						Retained earnings	21	531,079	-
						Additional proposed dividends	21	1,913,987	1,913,987
TOTAL ASSETS		103,171,536	101,957,505	103,355,224	102,066,259	TOTAL LIABILITIES AND EQUITY		103,171,536	101,957,505

TELEFÔNICA BRASIL S.A.**Income Statements****Three-month periods ended March 31, 2017 and 2016****(In thousands of reais, except earnings per share)**

		Company	
	Note	1st quarter of 2017	1st quarter of 2016
Net operating revenue	22	10,079,646	8,358,113
Cost of sales and services	23	(4,779,398)	(4,157,251)
Gross profit		5,300,248	4,200,862
Operating income (expenses)		(3,952,839)	(2,724,707)
Selling expenses	23	(3,155,988)	(2,582,360)
General and administrative expenses	23	(616,230)	(538,651)
Other operating income	24	114,191	632,672
Other operating expenses	24	(294,812)	(236,368)
Operating income		1,347,409	1,476,155
Financial income	25	525,624	747,601
Financial expenses	25	(839,254)	(1,044,048)
Equity pickup	10	161,858	256,011
Income before taxes		1,195,637	1,435,719
Income and social contribution taxes	26	(199,440)	(217,489)
Net income for the period		996,197	1,218,230
Basic and diluted earnings per common share (in R\$)	21	0.55	0.68
Basic and diluted earnings per preferred share (in R\$)	21	0.61	0.74

TELEFÔNICA BRASIL S.A.
Statements of Changes in Equity
Three-month periods ended March 31, 2017 and 2016
(In thousands of reais)

	Capital	Premium on acquisition of interest	Capital rese Other capital Tre reserves s	
Balances at December 31, 2015	63,571,416	(75,388)	1,435,757	(8
Prescribed equity instruments	-	-	-	
DIPJ adjustment - Tax incentives	-	-	-	
Other comprehensive income	-	-	-	
Net income for the year	-	-	-	
Interim interest on equity	-	-	-	
Balances at March 31, 2016	63,571,416	(75,388)	1,435,757	(8
Payment of additional dividend for 2015	-	-	-	
Prescribed equity instruments	-	-	-	
Reclassification of premium on acquisition of equity interest by TData	-	75,388	(75,388)	
Preferred shares given referring to the judicial process of expansion plan	-	-	2	
DIPJ adjustment - Tax incentives	-	-	-	
Other comprehensive income	-	-	-	
Net income for the year	-	-	-	
Allocation of income:				
Legal reserve	-	-	-	
Interim interest on equity	-	-	-	
Reversal of expansion and Modernization Reserve	-	-	-	
Expansion and Modernization Reserve	-	-	-	
Additional proposed dividends	-	-	-	
Balances at December 31, 2016	63,571,416		- 1,360,371	(8
Prescribed equity instruments	-	-	-	
DIPJ adjustment - Tax incentives	-	-	-	
Other comprehensive income	-	-	-	
Net income for the year	-	-	-	
Interim interest on equity	-	-	-	
Balances at March 31, 2017	63,571,416		- 1,360,371	(8

TELEFÔNICA BRASIL S.A.
Statements of Other Comprehensive Income
Three-month periods ended March 31, 2017 and 2016
(In thousands of reais)

	Note	Company
		1st quarter of 2017
Net income for the period		996,197
Unrealized gains (losses) on investments available for sale	10	465
Taxes		(158)
		307
Gains (losses) on derivative financial instruments	30	6,132
Taxes		(2,085)
		4,047
Cumulative Translation Adjustments (CTA) on transactions in foreign currency	10	(1,051)
Other comprehensive income (losses) to be reclassified into income (losses) in subsequent periods		3,303
Comprehensive income for the period, net of taxes		999,500

TELEFÔNICA BRASIL S.A.
Statements of Value Added
Three-month periods ended March 31, 2017 and 2016
(In thousands in reais)

	Company	
	1st quarter of 2017	1st quarter of 2016
Revenues	14,154,139	11,582,606
Sale of goods and services	14,198,866	11,621,783
Other revenues	282,521	237,488
Provision for impairment of trade accounts receivable	(327,248)	(276,665)
Inputs acquired from third parties	(5,442,147)	(4,689,725)
Cost of goods and products sold and services rendered	(3,133,464)	(3,155,415)
Materials, electric energy, third-party services and other expenses	(2,309,931)	(2,019,405)
Assets (loss) recovery	1,248	485,095
Gross value added	8,711,992	6,892,881
Withholdings	(1,936,132)	(1,442,448)
Depreciation and amortization	(1,936,132)	(1,442,448)
Net value added produced	6,775,860	5,450,433
Value added received in transfer	687,482	1,003,612
Equity pickup	161,858	256,011
Financial income	525,624	747,601
Total undistributed value added	7,463,342	6,454,045
Distribution of value added	(7,463,342)	(6,454,045)
Personnel, social charges and benefits	(1,029,301)	(736,892)
Direct compensation	(696,842)	(492,171)
Benefits	(276,008)	(205,603)
FGTS (unemployment compensation fund)	(56,451)	(39,118)
Taxes, charges and contributions	(3,935,856)	(2,935,395)
Federal	(1,268,462)	(1,154,897)
State	(2,641,428)	(1,769,142)
Municipal	(25,966)	(11,356)
Third-party debt remuneration	(1,501,988)	(1,563,528)
Interest	(819,466)	(1,032,085)
Rental	(682,522)	(531,443)
Equity remuneration	(996,197)	(1,218,230)
Retained profit	(996,197)	(1,218,230)

TELEFÔNICA BRASIL S.A.
Statements of Cash Flows
Three-month periods ended March 31, 2017 and 2016
(In thousands of Reais)

	Company	
	1st quarter of 2017	1st quarter
<u>Operating activities</u>		
Expenses (revenues) not representing changes in cash:		
Income before taxes	1,195,637	1,
Depreciation and amortization	1,936,132	1,
Foreign exchange losses (gains) on loans and derivative financial instruments	9,031	
Monetary losses	170,393	
Equity pickup	(161,858)	(2)
Losses (gains) on write-off/sale of goods	(4,992)	(4)
Provision for impairment - accounts receivable	327,248	
Provision of trade accounts payable	119,111	
Write-off and reversals for impairment - inventories	(17,061)	
Pension plans and other post-retirement benefits	7,706	
Provisions for tax, civil, labor and regulatory contingencies	257,076	
Interest expense	288,722	
Other	1,906	
Working capital adjustments:		
Trade accounts receivable	(279,328)	(1)
Inventories	25,541	
Taxes recoverable	(11,311)	
Prepaid expenses	(720,325)	(7)
Other current assets	101,623	
Other noncurrent assets	(10,077)	
Personnel, social charges and benefits	(141,288)	
Trade accounts payable	(256,283)	(1)
Taxes, charges and contributions	47,104	
Other current liabilities	(1,130,169)	(1)
Other non-current liabilities	(169,216)	(2)
	1,585,322	1,
Interest paid	(222,745)	(2)
Income and social contribution taxes paid	(37,679)	
Total cash generated by operating activities	1,324,898	1,
<u>Investing activities</u>		
Additions to PP&E, intangible assets	(1,759,945)	(1,3)
Cash received from sale of PP&E items	15,493	
Redemption of (increase in) judicial deposits	(148,070)	(1)

Dividends and interest on equity received	-	
Total cash used in investing activities	(1,892,522)	(1,0
<u>Financing activities</u>		
Payment of loans, financing and debentures	(572,573)	(1,1
Funding from the issuance of debentures	2,000,000	
Received from derivative financial instruments	31,253	
Payment of derivative financial instruments	(23,029)	
Payment for reverse split of shares	-	
Dividend and interest on equity paid	(310)	
Total cash generated by (used in) financing activities	1,435,341	(1,1
Increase (decrease) in cash and cash equivalents	867,717	(8
Cash and cash equivalents at beginning of the period	4,675,627	4,
Cash and cash equivalents at end of the period	5,543,344	3,
Changes in cash and cash equivalents for the period	867,717	(8

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2017

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

1) THE COMPANY AND ITS OPERATIONS

a) Background information

Telefônica Brasil S.A. ("Company" or "Telefônica Brasil") is a publicly-traded corporation operating in telecommunication services and in the performance of activities that are necessary or useful in the rendering of such services, in conformity with the concessions, authorizations and permissions 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 March 31, 2017 and December 31, 2016, Telefónica S.A. ("Telefónica"), the Group holding company based in Spain, held total direct and indirect interest in the Company of 73.58%, including treasury shares (Note 21).

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 B3 (company originated from the merger between BM&FBovespa and CETIP, occurred on March 30, 2017). 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 on the New York Stock Exchange ("NYSE").

b) Operations

The Company operates in the rendering of services: i) Fixed Switched Telephone Service Concession Arrangement ("STFC"), except for the municipalities identified on sector 33 of such agreement; (ii) Multimedia Communication Service ("SCM", data communication, including broadband internet); (iii)

Personal Mobile Service ("SMP"); and iv) Pay TV (conditioned access service - SEAC), throughout Brazil, through concessions and authorizations, as established in the General Plan of Concessions ("PGO").

In accordance with the STFC service concession agreement, in every two years, during the agreement'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 20). The Company's current STFC concession agreement is valid until December 31, 2025.

In accordance with the authorization terms for the usage of frequencies associated with SMP, in every two years after the first renewal of these agreements, the Company shall pay a fee equivalent to 2% of its prior-year SMP revenue, net of applicable taxes and social contribution taxes, and in the 15th year the Company will pay 1% of its prior-year revenue. The calculation will consider the net revenue from the application of Basic and Alternative Services Plans (Note 20). These agreements can be extended only once for a term of 15 years.

The information on the operation areas (regions) and due dates of the radiofrequency authorizations for SMP services is the same of Note 1b) Operations as disclosed in the financial statements for the year ended December 31, 2016.

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

c) Acquisition of GVT Participações S.A. ("GVTPart")

The information on the acquisition process of GVTPart, which occurred in May 2015, is the same of Note 4) Acquisition of GVT Participações S.A. ("GVTPart"), as disclosed in the financial statements for the fiscal year ended December 31, 2016.

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2017

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

d) Corporate restructuring

The Shareholders' Meeting held on April 1, 2016, approved corporate restructuring in accordance with the terms and conditions proposed on March 14, 2016. The information on the Corporate Restructuring is the same as in Note 1c) Corporate Restructuring, as disclosed in the financial statements for the fiscal year ended December 31, 2016.

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

a) Statement of compliance

The individual (Company) and consolidated quarterly financial Statements were prepared and are presented in accordance with the accounting practices adopted in Brazil, which comprise CVM standards and CPC (Accounting Pronouncements Committee) pronouncements, in compliance with the International Financial Accounting Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

All significant information in the financial statements - and solely such information - is disclosed and corresponds to that used by Company management for administration purposes.

The consolidated IFRS (Consolidated) have been prepared and are presented in accordance with CPC 21 (R1) Interim Statements and IAS 34 - Interim Financial Reporting issued by the IASB and standards

established as Resolution nº 739/15 of the CVM.

b) Basis of preparation and presentation

The Company's quarterly financial statements for the three-month period ended March 31, 2017 are presented in thousands of *Reais* (unless otherwise stated), which is the functional currency of the Company.

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

These quarterly financial statements compares the quarters ended March 31, 2017 and 2016, except for the balance sheets, that compare the positions as of March 31, 2017 and December 31, 2016.

The Board of Directors authorized the issue of these individual and consolidated financial statements at the meeting held on May 9, 2017.

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

These quarterly financial statements were prepared following the preparation basis and accounting policies consistent with those adopted in the preparation of the financial statements as of December 31, 2016, and should therefore be read with such statements. The information in the notes to the financial statements that did not significantly change or present irrelevant disclosures as compared to December 31, 2016 were not fully restated in these quarterly financial statements. In the meantime, the Company selected and included information to explain the main events and transactions occurring during the three-month period ended March 31, 2017, in order to understand the changes in the Company's financial position and performance.

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2017

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

In this context, the Company indicates below the number of the notes disclosed in the annual financial statements as of December 31, 2016 and not fully restated in these quarterly financial statements:

- Note 1 - Operations
- Note 2 - Basis of Preparation and Presentation of Financial Statements
- Note 3 - Summary of Significant Accounting Practices
- Note 4 - Acquisition of GVT Participações S.A. (“GVTPart”)
- Note 9 - Judicial Deposits and Garnishments
- Note 14 - Intangible Assets, Net
- Note 21 - Loans, Financing and Debentures
- Note 23 - Equity
- Note 31 - Share-Based Payment Plans
- Note 32 – Pension Plans and Other Post-Employment Benefits

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

As a result of the Corporate Restructuring process (Note 1d), which occurred on April 1, 2016, the individual quarterly financial statements for the three-month period ended March 31, 2017 and 2016 are not comparable.

The quarterly financial statements were prepared in accordance with the principles, practices and accounting criteria consistent with those adopted in the preparation of the financial statements for the fiscal year ended December 31, 2016 (Note 3) Summary of Significant Accounting Practices) and should be analyzed in conjunction with these Financial statements, in addition to the new pronouncements, interpretations and amendments, which came into effect as of January 1, 2017, as described below:

IAS 7 - Cash Flow. amendments: The changes are part of the IASB disclosure initiative and require an entity to provide disclosures that enable users of financial statements to assess changes in liabilities arising from financing activities, including both. The changes stemming from cash flows, such as changes that do not affect cash. At the initial adoption of the amendment, entities are not required to provide comparative information for prior periods. The application of the changes in this standard did not cause any material impact on the Company's cash flow disclosures.

IAS 12 - Income Taxes. amendments: The amendments clarify that an entity should consider whether tax legislation restricts sources of taxable income against which it may make deductions on the reversal of that deductible temporary difference. In addition, the amendments provide guidance on how an entity should determine future taxable income and explain the circumstances under which taxable income may include the recovery of some assets for amounts greater than their carrying amount. If an entity adopts the changes for an earlier period, it should disclose that fact. The application of the changes in this standard did not have a material impact on the Company's financial position.

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

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2017****(In thousands of *Reais*, unless otherwise stated)**

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

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

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

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

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

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

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

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2017

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

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

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

The Company is advancing in the process of implementing the new criteria, but due to the high number of transactions affected, the high volume and dispersion of the necessary information and the complexity of the estimates, the Company understands that at the closing date of the quarterly financial statements cannot reliably measure the impact of the application of this standard.

However, considering the current commercial offers as well as the volume of affected contracts, the Company estimates that the changes introduced by IFRS 15 will have a significant impact on its financial statements at the date of its initial application. In addition, the Company's financial statements will include more quantitative disclosures of revenue-related accounts.

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

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

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

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

Due to the different alternatives, as well as the complexity of the estimates and the high number of contracts, the Company has not yet completed the implementation process, so that at the closing date of the quarterly financial statements it is not possible to estimate the impact of the application of this standard.

However, considering the volume of contracts affected, the Company estimates that the changes introduced by IFRS 16 will have a significant impact on its financial statements from the date of adoption, including the recognition of the right to use and the corresponding obligations in respect to the contracts which, under the current standard, are classified as operating leases. In addition, depreciation of the right to use the assets and recognition of interest on the lease obligation will replace a significant portion of the amount recognized as expenses in the income statement of the operating lease. The classification of payments in the statement of cash flows will also be affected by the adoption of IFRS 16.

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2017****(In thousands of *Reais*, unless otherwise stated)****c) Basis of consolidation**

At March 31, 2017 and December 31, 2016, the Company held the following equity interests on the respective dates:

Investees	Type of investment	At 03.31.17	At 12.31.16	Country (Headq
Telefônica Data S.A. ("TData")	Wholly-owned subsidiary	100.00%	100.00%	
POP Internet Ltda ("POP") (note 1c)	Wholly-owned subsidiary	100.00%	100.00%	
Aliança Atlântica Holging B.V. ("Aliança")	Jointly-controlled subsidiary	50.00%	50.00%	
Companhia AIX de Participações ("AIX")	Jointly-controlled subsidiary	50.00%	50.00%	
Companhia ACT de Participações ("ACT")	Jointly-controlled subsidiary	50.00%	50.00%	

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

3) CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	03/31/17	12/31/16	03/31/17	12/31/16
Cash and banks	111,371	189,445	113,230	198,369
Short-term investments	5,431,973	4,486,182	6,171,774	4,906,741
Total	5,543,344	4,675,627	6,285,004	5,105,110

Highly liquid short-term investments basically comprise Bank Deposit Certificates (CDB) and Repurchase Agreements kept at first-tier financial institutions, pegged to the Interbank Deposit Certificate (CDI) rate variation, with original maturities of up to three months, and with immaterial risk of change in value. Revenues (or expenses) generated by these investments are recorded as financial income (or expenses).

4) TRADE ACCOUNTS RECEIVABLE, NET

	Company		Consolidated	
	03/31/17	12/31/16	03/31/17	12/31/16
Billed amounts	6,172,772	6,077,768	6,883,730	6,939,909
Unbilled amounts	1,930,749	1,898,630	1,953,653	1,930,708
Interconnection amounts	1,269,692	1,333,595	1,276,449	1,345,471
Amounts from related parties (Note 27)	135,343	177,741	185,333	190,906
Gross accounts receivable	9,508,556	9,487,734	10,299,165	10,406,994
Estimated impairment losses	(1,073,254)	(1,004,512)	(1,491,626)	(1,399,895)
Total	8,435,302	8,483,222	8,807,539	9,007,099
Current	8,249,786	8,282,685	8,524,033	8,701,688
Non-current	185,516	200,537	283,506	305,411

Consolidated balances of non-current trade accounts receivable include:

- R\$126,855 at March 31, 2017 (R\$143,265 at December 31, 2016), relating to the business model of resale of goods to legal entities, receivable within 24 months. At March 31, 2017, the impact of the present-value adjustment was R\$27,132 (R\$32,920 at December 31, 2016).
- R\$58,661, at March 31, 2017 (R\$57,272, at December 31, 2016), net of the present value adjustment relating to the portion of accounts receivable arising from negotiations on the bankruptcy process of companies from the OI group. At March 31, 2017, the impact of the present-value adjustment was R\$8,879

(R\$10,268 at December 31, 2016).

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2017****(In thousands of *Reais*, unless otherwise stated)**

- R\$97,990, at March 31, 2017, (R\$104,874 at December 31, 2016), relating to “Solucioná TI”, traded by TData, which consists of lease of IT equipment to small and medium companies and receipt of fixed installments over the contractual term. Considering the contractual terms, this product was classified as finance lease. At March 31, 2017, the impact of the present-value adjustment was R\$1,353 (R\$3,005 at December 31, 2016).

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

	Consolidated	
	03/31/17	12/31/16
Present value of accounts receivable	589,864	608,379
Deferred financial income	1,353	3,005
Nominal amount receivable	591,217	611,384
Estimated impairment losses	(362,677)	(344,738)
Net amount receivable	228,540	266,646
Current	130,550	161,772
Non-current	97,990	104,874

At March 31, 2017, the aging list of gross trade accounts receivable relating to “Solucioná TI” product is as follows:

	Consolidated	
	Nominal amount receivable	Present value of accounts receivable
Falling due within one year	318,759	318,759
Falling due between one year and five years	272,458	271,105
Total	591,217	589,864

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

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

	Company		Consolidated	
	03/31/17	12/31/16	03/31/17	12/31/16
Falling due	5,914,433	6,392,442	6,295,571	6,841,752
Overdue – 1 to 30 days	1,365,808	1,025,630	1,378,164	1,073,568
Overdue – 31 to 60 days	469,559	309,210	481,940	322,485
Overdue – 61 to 90 days	240,823	225,132	218,692	227,010
Overdue – 91 to 120 days	130,879	110,813	137,897	105,048
Overdue – over 120 days	313,800	419,995	295,275	437,236
Total	8,435,302	8,483,222	8,807,539	9,007,099

At March 31, 2017 and December 31, 2016, no customer represented more than 10% of trade accounts receivable, net.

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2017****(In thousands of *Reais*, unless otherwise stated)**

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

	Company	Consolidated
Balance at 12/31/15	(1,650,112)	(2,217,926)
Increase to estimated losses (Note 23)	(412,897)	(498,225)
Reversal of estimated losses (Note 23)	136,232	153,835
Write-off due to use	136,221	185,331
Balance at 03/31/16	(1,790,556)	(2,376,985)
Increase to estimated losses	(1,254,462)	(1,345,550)
Reversal of estimated losses	305,385	341,719
Write-off due to use	1,895,841	1,980,921
Merger (Note 1d)	(160,720)	-
Balance at 12/31/16	(1,004,512)	(1,399,895)
Increase to estimated losses (Note 23)	(396,175)	(430,932)
Reversal of estimated losses (Note 23)	68,927	73,189
Write-off due to use	258,506	266,012
Balance at 03/31/17	(1,073,254)	(1,491,626)

5) INVENTORIES, NET

	Company		Consolidated	
	03/31/17	12/31/16	03/31/17	12/31/16
Materials for resale (1)	323,003	335,281	363,670	377,465
Materials for consumption	73,556	75,086	75,928	77,732
Other inventories	7,879	7,892	7,879	7,892
Gross total	404,438	418,259	447,477	463,089
Estimated losses from impairment or obsolescence	(44,767)	(50,108)	(49,938)	(52,676)
Total	359,671	368,151	397,539	410,413

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

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

	Company	Consolidated
Balance at 12/31/15	(48,390)	(52,341)
Increase to estimated losses	-	(1,181)
Reversal of estimated losses	6,525	6,525
Balance at 03/31/16	(41,865)	(46,997)
Increase to estimated losses	(24,943)	(28,574)
Reversal of estimated losses	16,700	22,895
Balance at 12/31/16	(50,108)	(52,676)
Increase to estimated losses	(4,385)	(7,702)
Reversal of estimated losses	9,726	10,440
Balance at 03/31/17	(44,767)	(49,938)

Additions and reversals of estimated impairment losses and inventory obsolescence are included in cost of goods sold (Note 23).

Telefônica Brasil S. A.**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****Three-month period ended March 31, 2017****(In thousands of *Reais*, unless otherwise stated)****6) DEFERRED TAXES AND TAXES RECOVERABLE****a) Taxes recoverable**

	Company		Consolidated	
	03/31/17	12/31/16	03/31/17	12/31/16
State VAT (ICMS) (1)	2,282,560	2,317,739	2,295,608	2,329,159
Income and social contribution taxes recoverable (2)	901,570	829,160	906,508	830,549
Withholding taxes and contributions (3)	78,278	131,915	93,557	157,371
PIS and COFINS	68,015	125,273	68,937	148,759
INSS, ISS and other taxes	20,331	22,775	36,196	38,236
Total	3,350,754	3,426,862	3,400,806	3,504,074
Current	2,860,862	2,952,622	2,906,313	3,027,230
Non-current	489,892	474,240	494,493	476,844

(1) This includes credits arising from the acquisition of property and equipment (subject to offsetting in 48 months); requests for refund of ICMS, which was paid under invoices that were cancelled subsequently; for the rendering of services; tax substitution; and tax rate difference; among others. Non-current consolidated amounts include credits arising from the acquisition of property and equipment of R\$389,327 and R\$370,770 on March 31, 2017 and December 31, 2016, respectively.

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

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

b) Deferred taxes

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

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

Telefônica Brasil S. A.

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

Three-month period ended March 31, 2017

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

	Balances at 12/31/15	Income statement	Comprehensive income	Balances at 03/31/16	Income statement	Company Comprehensive income	Other	Merger (note 1d)	Balances at 12/31/15
<u>Deferred tax</u>									
<u>assets</u>									
<u>(liabilities)</u>									
Income and social contribution taxes on tax losses (1)	-	-	-	-	1,376	-	-	-	-
Merged tax credit (2)	(337,535)	-	-	(337,535)	-	-	-	-	(337,535)
Income and social contribution taxes on temporary differences (3)	181,584	48,717	8,043	238,344	(765,486)	70,755	(1,516)	705,367	24,568
Provisions for legal, labor, tax civil and regulatory contingencies	1,681,016	61,878	-	1,742,894	195,410	-	-	282,751	2,220,079
Trade accounts payable and other provisions	535,001	21,570	-	556,571	(14,868)	-	-	66,455	607,158
Customer portfolio and other provisions	256,056	(9,180)	-	246,876	(53,480)	-	-	119,695	310,091

trademarks									
Estimated losses on impairment of accounts receivable	369,174	34,724	-	403,898	(117,008)	-	-	54,645	34
Estimated losses from modems and other P&E items	170,132	(5,113)	-	165,019	(5,448)	-	-	122,696	28