

TELEFONICA BRASIL S.A.  
Form 6-K  
June 04, 2012

**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 June, 2012**

**Commission File Number: 001-14475**

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**TELEFÔNICA BRASIL S.A.**

**(Exact name of registrant as specified in its charter)**

**TELEFONICA BRAZIL S.A.**

**(Translation of registrant's name into English)**

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**Rua Martiniano de Carvalho, 851 – 21 andar**

**São Paulo, S.P.**

**Federative Republic of Brazil**

(Address of principal executive office)

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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

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

**Quarterly Review**

**Telefônica Brasil S.A.**

Quarter ended March 31, 2012

With Independent Auditors' Review Report on Quarterly Information

(A free translation of the original issued in Portuguese)

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**Telefônica Brasil S.A.**

Quarterly Information.

March 31, 2012

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## **REPORT OF QUARTERLY INFORMATION REVIEW**

(A free translation of the original report issued in Portuguese)

To the Shareholders, Board Members and Directors of

**TELEFÔNICA BRASIL S.A.**

São Paulo - SP

### **Introduction**

We have reviewed the individual and consolidated interim accounting information of **TELEFÔNICA BRASIL S.A.** and subsidiaries, contained in the ITR (Quarterly Information Form), referring to the quarter ended on March 31, 2012, which comprises the balance sheet and related statements of income, of comprehensive income, of changes in shareholders' equity and of cash flows for the three-month period then ended, including the notes thereto.

The management is responsible for the preparation of the individual interim accounting information according to CPC Technical Pronouncement CPC 21 – Interim Statement and interim consolidated accounting information according to CPC 21 and international standard IAS 34 – Interim Financial Reporting, issued by International Accounting Standards Board – IASB, as well as for the presentation of such information according to standards issued by CVM (Brazilian SEC), applicable to the preparation of Quarterly Information - ITR. Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of review**

We conducted our review in accordance with the Brazilian and international standards of review of interim information (NBC TR 2410 - Revisão de Informações Intermediárias Executada pelo Auditor da Entidade e ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists of inquiries, mainly to those responsible for financial and accounting matters, and the application of analytical procedures and other review procedures.

The scope of a review is significantly less in scope than an audit and, consequently, it did not allow us to obtain assurance that we became aware of all significant matters which could be identified in an audit. Accordingly, we did not express an audit opinion.

### **Conclusion on individual interim information**

Based on our review, we are not aware of any fact which makes us believe that the individual interim accounting information included in the aforesaid quarterly information was not prepared, in all material respects, in accordance with CPC 21 applicable to the preparation of Quarterly Information (ITR) and presented in accordance with the Brazilian SEC (CVM) regulations.

### **Conclusion on consolidated interim information**

Based on our review, we are not aware of any fact which makes us believe that the consolidated interim accounting information included in the aforesaid quarterly information was not prepared, in all material respects, in accordance with CPC 21 and IAS 34 applicable to the preparation of Quarterly Information (ITR) and presented in accordance with Brazilian SEC (CVM) regulations.

### **Other matters**

### **Interim statement of value added**

We have also reviewed the individual and consolidated statement of value added (SVA), referring to the three-month period ended March 31, 2012, the presentation of which in the interim information is required according to standards issued by CVM (Brazilian SEC), regulations applicable to the preparation of the Quarterly Information – ITR and considered as supplementary information by IFRS’s standards, which do not require the presentation of the SVA. These statements were submitted to the same review procedures previously described and, based on our review, we are not aware of any fact which could make us believe that they were not prepared, in all material aspects, in accordance with individual and consolidated interim accounting information taken as a whole.

## **Audit and review of comparative amounts of previous year**

The Quarterly Information – ITR, mentioned in the first paragraph, includes accounting information corresponding to income, comprehensive income, changes in shareholders' equity, cash flows and added value of the quarter ended March 31, 2011, obtained from the Quarterly Information – ITR from that period, and those from the balance sheet of December 31, 2011, obtained from the financial statements as of December 31, 2011, presented for comparison purposes. The review of the Quarterly Information – ITR of the quarter ended March 31, 2011 and the examination of the financial statements from the period ended December 31, 2011 were conducted under the responsibility of other independent auditors, who issued review and audit reports dated May 10, 2011 and February 14, 2012, respectively, with no changes.

São Paulo, May 07, 2012.

**CRC Nº 2SP013002/O-3**

**Clóvis Ailton Madeira**

**CTCRC Nº 1SP106895/O-1 "S"**

**Telefônica Brasil S.A.**

## Balance sheets

March 31, 2012 and December 31, 2011

(In thousands of reais)

(A free translation of the original issued in Portuguese)

|   | Note | Company           |                   | Consolidated      |                   |
|---|------|-------------------|-------------------|-------------------|-------------------|
|   |      | 03/31/2012        | 12/31/2011        | 03/31/2012        | 12/31/2011        |
| Assets  |      |                   |                   |                   |                   |
| Current assets  |      | <b>4,705,057</b>  | <b>4,775,480</b>  | <b>12,087,646</b> | <b>11,810,118</b> |
| Cash and cash equivalents                                 | 4    | 877,302           | 826,902           | 3,177,346         | 2,940,342         |
| Trade accounts receivable, net                            | 5    | 2,267,013         | 2,286,636         | 4,901,347         | 5,105,860         |
| Inventories   | 6    | 36,994            | 31,836            | 434,722           | 471,721           |
| Recoverable taxes   | 7.1  | 1,021,601         | 1,130,761         | 2,406,472         | 2,495,066         |
| Escrow deposits   | 8    | 0                 | 0                 | 118,476           | 116,421           |
| Derivatives   | 35   | 2                 | 674               | 1,314             | 1,840             |
| Prepaid expenses  | 9    | 51,802            | 37,705            | 493,567           | 255,056           |
| Other   | 10   | 450,343           | 460,966           | 554,402           | 423,812           |
| Noncurrent assets   |      | <b>50,756,679</b> | <b>50,269,267</b> | <b>53,301,295</b> | <b>53,679,855</b> |
| Long-term portion of investments<br>pledged as collateral |      | 0                 | 0                 | 102,657           | 99,114            |
| Trade accounts receivable, net                            | 5    | 0                 | 0                 | 82,647            | 84,855            |
| Recoverable taxes   | 7.1  | 591,949           | 787,852           | 810,330           | 1,014,959         |
| Deferred taxes  | 7.2  | 0                 | 0                 | 1,264,446         | 1,428,878         |
| Escrow deposits   | 8    | 2,932,170         | 2,815,964         | 3,629,222         | 3,400,244         |
| Derivatives   | 35   | 29,067            | 35,142            | 196,443           | 225,935           |
| Prepaid expenses  | 9    | 17,520            | 18,290            | 37,986            | 32,138            |
| Other   | 10   | 100,370           | 109,221           | 137,110           | 148,293           |
| Investments   | 11   | <b>21,079,182</b> | <b>20,245,883</b> | <b>40,764</b>     | <b>37,835</b>     |
| Property, plant and equipment, net                        | 12   | <b>9,603,319</b>  | <b>9,691,517</b>  | <b>17,098,166</b> | <b>17,153,920</b> |
| Intangible assets, net                                    | 13   | <b>16,403,102</b> | <b>16,565,398</b> | <b>29,901,524</b> | <b>30,053,684</b> |
| Total Assets  |      | <b>55,461,736</b> | <b>55,044,747</b> | <b>65,388,941</b> | <b>65,489,973</b> |



| Liabilities and Shareholders' Equity              | Note      | Company           |                   | Consolidated      |                   |
|---|-----------|-------------------|-------------------|-------------------|-------------------|
|   |           | 03/31/2012        | 12/31/2011        | 03/31/2012        | 12/31/2011        |
| <b>Current Liabilities</b>                        |           | <b>5,847,880</b>  | <b>6,398,178</b>  | <b>11,688,464</b> | <b>12,740,263</b> |
| Payroll and related accruals                      | 14        | 210,164           | 244,438           | 402,871           | 495,624           |
| Trade accounts payable                            | 15        | 2,154,998         | 2,396,987         | 5,398,546         | 6,081,613         |
| Taxes payable                                     | 16        | 585,378           | 700,187           | 1,544,445         | 1,691,999         |
| Loans and financing                               | 17.1      | 418,743           | 510,899           | 897,064           | 988,413           |
| Debentures  | 17.2      | 498,564           | 468,624           | 498,564           | 468,624           |
| Dividends and interest on shareholders' equity    | 18        | 970,319           | 972,986           | 970,319           | 972,986           |
| Provisions  | 19        | 294,028           | 287,137           | 430,054           | 416,313           |
| Derivatives obligations                           | 35        | 10,617            | 10,960            | 41,856            | 51,162            |
| Deferred revenue                                  | 20        | 77,276            | 84,956            | 793,110           | 761,263           |
| Grouping of fractional shares                     |           | 346,278           | 346,396           | 389,834           | 389,953           |
| Other   | 21        | 281,515           | 374,608           | 321,801           | 422,318           |
| <b>Non Current Liabilities</b>                    |           | <b>5,327,456</b>  | <b>5,320,852</b>  | <b>9,409,881</b>  | <b>9,418,925</b>  |
| Taxes payable                                     | 16        | 31,807            | 32,390            | 446,762           | 433,071           |
| Deferred taxes                                    | 7.2       | 834,594           | 788,954           | 834,594           | 788,954           |
| Loans and financing                               | 17.1      | 1,172,183         | 1,277,783         | 3,738,376         | 3,959,115         |
| Debentures  | 17.2      | 793,931           | 787,807           | 793,931           | 787,807           |
| Provisions  | 19        | 2,399,757         | 2,336,981         | 3,312,229         | 3,147,083         |
| Derivatives obligations                           | 35        | 8,952             | 13,382            | 63,016            | 78,363            |
| Deferred revenue                                  | 20        | 44,303            | 38,616            | 156,091           | 156,266           |
| Other   | 21        | 41,929            | 44,939            | 64,882            | 68,258            |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 | <b>22</b> | <b>44,286,400</b> | <b>43,325,717</b> | <b>44,290,596</b> | <b>43,330,785</b> |
| Capital   |           | 37,798,110        | 37,798,110        | 37,798,110        | 37,798,110        |
| Capital Reserves                                  |           | 2,718,300         | 2,719,665         | 2,718,300         | 2,719,665         |
| Legal Reserve                                     |           | 877,322           | 877,322           | 877,322           | 877,322           |
| Award the purchase of non-controlling interest    |           | (29,929)          | (29,929)          | (29,929)          | (29,929)          |
| Other comprehensive income                        |           | 7,262             | 7,520             | 7,262             | 7,520             |
| Accumulated profit                                |           | 962,306           | -                 | 962,306           | -                 |
| Additional proposed dividends                     |           | 1,953,029         | 1,953,029         | 1,953,029         | 1,953,029         |
| <b>MINORITY PARTICIPATION</b>                     |           | <b>-</b>          | <b>-</b>          | <b>4,196</b>      | <b>5,063</b>      |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |           | <b>55,461,736</b> | <b>55,044,747</b> | <b>65,388,941</b> | <b>65,489,973</b> |

The accompanying notes are an integral part of these financial statements.

**Telefônica Brasil S.A.**

## Statements of income

Three-months periods ended March 31, 2012 and 2011

(In thousands of reais, except earnings per share data)

(A free translation of the original issued in Portuguese)

|  | <b>Note</b> | <b>Company</b>  |                 | <b>Consolidated</b> |                 |
|--|-------------|-----------------|-----------------|---------------------|-----------------|
|  |             | <b>Mar/2012</b> | <b>Mar/2011</b> | <b>Mar/2012</b>     | <b>Mar/2011</b> |
| <b>Net operating revenue</b>                                   | 23          | 3,263,797       | 3,689,647       | 8,314,330           | 3,974,695       |
| Cost of goods and services                                     | 24          | (2,023,786)     | (2,128,928)     | (4,234,140)         | (2,404,009)     |
| <b>Gross profit</b>  |             | 1,240,011       | 1,560,719       | 4,080,190           | 1,570,686       |
| <b>Operation Expenses</b>                                      |             | (213,608)       | (888,013)       | (2,551,146)         | (917,136)       |
| Selling  | 25          | (829,794)       | (735,607)       | (2,174,991)         | (775,188)       |
| General and administrative                                     | 26          | (199,576)       | (137,220)       | (559,163)           | (170,259)       |
| Equity in earnings (losses) of associates                      | 11          | 828,464         | (49,611)        | -                   | 762             |
| Other operating income (expenses), net                         | 27          | (12,702)        | 34,425          | 183,008             | 27,549          |
| <b>Operating income before financial income (expense), net</b> |             | 1,026,403       | 672,706         | 1,529,044           | 653,550         |
| Financial income (expense), net                                | 28          | (35,248)        | 2,660           | (63,069)            | 27,892          |
| <b>Income before income tax and social contribution</b>        |             | 991,155         | 675,366         | 1,465,975           | 681,442         |
| Income tax and social contribution                             | 29          | (33,705)        | (257,029)       | (509,397)           | (263,105)       |
| <b>Net income for the period</b>                               |             | 957,450         | 418,337         | 956,578             | 418,337         |
| <b>Attributed to:</b>  |             |                 |                 |                     |                 |
| Participation of non-controlling shareholders                  |             | -               | -               | (872)               | -               |
| Equity holders of the parent company                           |             | 957,450         | 418,337         | 957,450             | 418,337         |
| Basic and diluted earnings per share – Common                  |             | 0.80            | 0.78            | 0.80                | 0.78            |
| Basic and diluted earnings per share – Preferred               |             | 0.88            | 0.85            | 0.88                | 0.85            |

The accompanying notes are an integral part of these financial statements.

**Telefônica Brasil S.A.**

## Statement of comprehensive income

Three-months periods ended March 31, 2012 and 2011

(In thousands of reais)

(A free translation of the original issued in Portuguese)

|  | <b>Company</b>    |                   | <b>Consolidated</b> |                   |
|--|-------------------|-------------------|---------------------|-------------------|
|  | <b>03/31/2012</b> | <b>12/31/2011</b> | <b>03/31/2012</b>   | <b>12/31/2011</b> |
| <b>Net income for the period</b>                             | <b>957,450</b>    | <b>418,337</b>    | <b>956,578</b>      | <b>418,337</b>    |
| Gains (Losses) on investments available for sale             | 2,550             | 6,473             | 2,929               | 6,473             |
| Taxes on (gains) losses on investments available for sales   | (5,098)           | (2,201)           | (5,098)             | (2,201)           |
| Gains (losses) on derivative transactions                    | -                 | -                 | 2,680               | -                 |
| Taxes on earnings (losses) on derivatives transactions       | -                 | -                 | (911)               | -                 |
| Cumulative translation adjustments                           | 142               | 2,263             | 142                 | 2,263             |
| Participation in comprehensive income of subsidiaries        | 2,148             | -                 | -                   | -                 |
| <b>Net Gains (Losses) recognized in equity</b>               | <b>(258)</b>      | <b>6,535</b>      | <b>(258)</b>        | <b>6,535</b>      |
| <b>Comprehensive income for the period</b>                   | <b>957,192</b>    | <b>424,872</b>    | <b>956,320</b>      | <b>424,872</b>    |
| Attributed to:   |                   |                   |                     |                   |
| Participation of non-controlling shareholders                | -                 | -                 | (872)               | -                 |
| Equity holders of the parent company                         | 957,192           | 424,872           | 957,192             | 424,872           |
| Basic and diluted comprehensive income per share – Common    | 0.80              | 0.79              | 0.80                | 0.79              |
| Basic and diluted comprehensive income per share – Preferred | 0.88              | 0.87              | 0.88                | 0.87              |

The accompanying notes are an integral part of these financial statements.

**Telefônica Brasil S.A.**

Statements of changes in shareholders' equity

March 31, 2012 and December 31, 2011

(In thousands of reais)

(A free translation of the original issued in Portuguese)

|   | Capital reserves | Other comprehensive income | Participation in securities | Additional reserves | Total       |
|---|------------------|----------------------------|-----------------------------|---------------------|-------------|
| <b>Balances as of December 31, 2010</b>   | 6,575,480        | 1,074,268                  | 1,575,940                   | 1,593,697           | 10,819,385  |
| <b>Balances as of December 31, 2010</b>   | 6,575,480        | 1,074,268                  | 1,575,940                   | 1,593,697           | 10,819,385  |
| Unclaimed dividends and interest on shareholders' equity, net of taxes              | -                | 107,874                    | 107,874                     | 107,874             | 323,622     |
| Capital increase by incorporation of the shares of Vivo Participacoes on 27/04/2011 | 1,222,630        | 47,723                     | 31,272                      | 36,355              | 1,337,980   |
| Withdrawal rights to shareholders due to the incorporation of Vivo                  | -                | (3)                        | (3)                         | (3)                 | (9)         |
| Repurchase of shares  | -                | (61,617)                   | (61,617)                    | (61,617)            | (184,851)   |
| Participation of non-controlling shareholders                                       | (29,929)         | -                          | (29,929)                    | (29,929)            | (89,794)    |
| Legal reserve   | -                | 217,766                    | -                           | -                   | 673,299     |
| Net income for the year   | -                | 4,355,318                  | 556,289                     | 562,819             | 5,474,426   |
| Other comprehensive income  | -                | (42,997)                   | (10,859)                    | (94)                | (154,849)   |
| Appropriations:   |                  |                            |                             |                     |             |
| Dividends   | -                | (82,409)                   | (6,709)                     | (99)                | (251,527)   |
| Interest on shareholders' equity  | -                | (1,586,950)                | (6,950)                     | (50)                | (4,950,550) |
| Withholding tax on interest on shareholders' equity                                 | -                | (280,050)                  | (280,050)                   | (50)                | (840,150)   |
| Additional proposed dividend  | -                | (1,953,292)                | -                           | -                   | (5,959,734) |
| <b>Balances as of December 31, 2011</b>   | 37,799,329       | 42,789,339                 | 2,225,209                   | 2,253,078           | 83,067,955  |
| Unclaimed dividends and interest on shareholders' equity, net of taxes              | -                | 4,856                      | 4,856                       | 4,856               | 14,568      |
| Capital increase by incorporation of the shares of Vivo Participacoes on 27/04/2011 | -                | -                          | -                           | -                   | -           |
| Withdrawal rights to shareholders due to the incorporation of Vivo                  | -                | -                          | -                           | -                   | -           |
| Repurchase of shares  | -                | (1,365)                    | (1,365)                     | (1,365)             | (4,095)     |

|   |     |                          |
|---|-----|--------------------------|
| Participation of non-controlling shareholders       | --- | -----                    |
| Legal reserve                                       | --- | -----                    |
| Net income for the year                             | --- | 957,450,957.07           |
| Other comprehensive income                          | --- | (2,167,958.58)           |
| Donations and investment subsidies                  | --- | -----                    |
| Appropriations:                                     | --- | -----                    |
| Dividends   | --- | -----                    |
| Interest on shareholders' equity                    | --- | -----                    |
| Withholding tax on interest on shareholders' equity | --- | -----                    |
| Additional proposed dividend                        | --- | -----                    |
| <b>Balances as of March 31, 2012</b>                |     | <b>37,799,329,427.68</b> |

The accompanying notes are an integral part of these financial statements.

**Telefônica Brasil S.A.**

## Statements of cash flows

Three-months periods ended March 31, 2012 and 2011

(In thousands of reais)

(A free translation of the original issued in Portuguese)

|   | <b>Company</b>   |                  | <b>Consolidated</b> |                  |
|---|------------------|------------------|---------------------|------------------|
|   | 03/31/2012       | 03/31/2011       | 03/31/2012          | 03/31/2011       |
| <b>Cash flows from operations</b>                       |                  |                  |                     |                  |
| <b>Income before income tax and social contribution</b> | <b>991,155</b>   | <b>675,366</b>   | <b>1,465,975</b>    | <b>681,442</b>   |
| Items that do not affect cash                           |                  |                  |                     |                  |
| <b>Expenses (revenues) not affecting cash</b>           | <b>(4,843)</b>   | <b>597,262</b>   | <b>1,508,315</b>    | <b>624,740</b>   |
| Depreciation and amortization                           | 652,628          | 475,654          | 1,318,292           | 538,508          |
| Foreign exchange variations on loans                    | (6,023)          | (16,551)         | (1,705)             | (16,551)         |
| Monetary variations                                     | (1,903)          | (13,261)         | 134                 | (12,792)         |
| (Gain) / Loss from equity in earnings of associates     | (828,464)        | 49,611           | -                   | (762)            |
| (Gain) / Loss on permanent asset disposals              | 5,195            | (9,047)          | (208,107)           | (8,620)          |
| Allowance for doubtful accounts                         | 77,944           | 73,834           | 181,860             | 84,962           |
| Pension and other post-retirement benefits plans        | (1,345)          | (2,547)          | (3,603)             | (2,567)          |
| Tax, Labor and civil provisions                         | 27,293           | 2,320            | 74,504              | 3,115            |
| Interest expense  | 67,720           | 40,708           | 139,784             | 40,708           |
| Provision for dismantling costs                         | (188)            | -                | (508)               | -                |
| Provision for loyalty program                           | -                | -                | 7,300               | -                |
| Others  | 2,300            | (3,459)          | 364                 | (1,261)          |
| <b>(Increase) decrease in operating assets</b>          | <b>218,561</b>   | <b>(234,272)</b> | <b>225,441</b>      | <b>(132,503)</b> |
| Trade accounts receivable, net                          | (58,321)         | (129,780)        | 24,862              | (125,291)        |
| Inventories   | (5,158)          | (4,998)          | 35,347              | (20,730)         |
| Other current assets                                    | 154,638          | 51,213           | 133,150             | 48,988           |
| Other noncurrent assets                                 | 127,402          | (150,707)        | 32,082              | (35,470)         |
| Increase (decrease) in operating liabilities            | <b>(278,435)</b> | <b>(152,861)</b> | <b>(1,066,189)</b>  | <b>(350,149)</b> |
| Payroll and related accruals                            | (34,274)         | (59,562)         | (92,754)            | (61,942)         |
| Accounts payable and accrued expenses                   | 12,670           | 162,581          | (293,014)           | (23,869)         |
| Taxes other than income taxes                           | (115,392)        | (11,395)         | (176,069)           | (11,574)         |
| Other current liabilities                               | (95,818)         | 10,148           | (110,706)           | 4,123            |
| Other noncurrent liabilities                            | (1,752)          | (7,746)          | (31,109)            | (8,074)          |
| Interest paid   | (34,386)         | (40,956)         | (94,256)            | (40,956)         |
| Income and social contribution taxes paid               | (9,483)          | (205,931)        | (268,281)           | (207,857)        |
| <b>Cash provided by operations</b>                      | <b>926,438</b>   | <b>885,495</b>   | <b>2,133,542</b>    | <b>823,530</b>   |

**Cash flows generated from (used in) investing activities**

|   |                  |                  |                    |                  |
|---|------------------|------------------|--------------------|------------------|
| Acquisition of fixed and intangible assets, net of grants | (674,349)        | (733,072)        | (1,574,318)        | (722,536)        |
| Cash from sales of fixed assets                           | 653              | 21,483           | 1,361              | 21,483           |
| <b>Cash used in investing activities</b>                  | <b>(673,696)</b> | <b>(711,589)</b> | <b>(1,572,957)</b> | <b>(701,053)</b> |

**Cash flows generated from (used in) financing activities**

|   |                  |                |                  |                |
|---|------------------|----------------|------------------|----------------|
| Loans paid                                      | (195,561)        | (104,464)      | (305,608)        | (104,464)      |
| New loans obtained                              | -                | 698,470        | 6,966            | 698,470        |
| Net payment on derivatives contracts            | (5,416)          | (3,384)        | (23,574)         | (3,384)        |
| Repurchase of treasury shares                   | (1,365)          | -              | (1,365)          | -              |
| <b>Cash generated from financing activities</b> | <b>(202,342)</b> | <b>590,622</b> | <b>(323,581)</b> | <b>590,622</b> |

|   |                |                  |                  |                  |
|---|----------------|------------------|------------------|------------------|
| Increase in cash and cash equivalents                 | 50,400         | 764,528          | 237,004          | 713,099          |
| <b>Cash and cash equivalents at beginning of year</b> | <b>826,902</b> | <b>1,089,089</b> | <b>2,940,342</b> | <b>1,556,715</b> |
| <b>Cash and cash equivalents at end of period</b>     | <b>877,302</b> | <b>1,853,617</b> | <b>3,177,346</b> | <b>2,269,814</b> |
| Changes in cash during the period                     | 50,400         | 764,528          | 237,004          | 713,099          |

The accompanying notes are an integral part of these financial statements.

**Telefônica Brasil S.A.**

## Statements of value added

Three-months periods ended March 31, 2012 and 2011

(In thousands of reais)

(A free translation of the original issued in Portuguese)

|   | Company     |             | Consolidated |             |
|---|-------------|-------------|--------------|-------------|
|   | 03/31/2012  | 03/31/2011  | 03/31/2012   | 03/31/2011  |
| Revenues  | 4.361.417   | 5.090.279   | 11.477.698   | 5.421.912   |
| Sale of goods, products and services                    | 4.374.387   | 5.055.008   | 11.278.762   | 5.398.587   |
| Other income  | 64.974      | 109.105     | 380.796      | 108.287     |
| Allowance for doubtful accounts                         | (77.944)    | (73.834)    | (181.860)    | (84.962)    |
| Input products acquired from third parties              | (1.967.407) | (2.222.033) | (4.185.099)  | (2.444.648) |
| Cost of goods and services                              | (1.327.792) | (1.527.628) | (2.241.108)  | (1.632.077) |
| Materials, energy, services of third parties and others | (625.529)   | (653.462)   | (1.725.877)  | (766.555)   |
| Loss of assets  | (5.848)     | (12.435)    | (42.510)     | (12.863)    |
| Others  | (8.238)     | (28.508)    | (175.604)    | (33.153)    |
| Gross added value                                       | 2.394.010   | 2.868.246   | 7.292.599    | 2.977.264   |
| Retentions  | (652.628)   | (475.654)   | (1.318.292)  | (538.509)   |
| Depreciation and amortization                           | (652.628)   | (475.654)   | (1.318.292)  | (538.509)   |
| Net added value produced                                | 1.741.382   | 2.392.592   | 5.974.307    | 2.438.755   |
| Added value received upon transfer                      | 984.025     | 46.771      | 336.350      | 124.245     |
| (Gain) loss from equity holding in associates           | 828.464     | (49.611)    | -            | 762         |
| Financial income  | 155.561     | 96.382      | 336.350      | 123.483     |
| Total added value to be distributed                     | 2.725.407   | 2.439.363   | 6.310.657    | 2.563.000   |
| Distribution of added value                             | (2.725.407) | (2.439.363) | (6.310.657)  | (2.563.000) |
| Payroll and related charges                             | (234.194)   | (185.706)   | (537.892)    | (191.532)   |
| Salary  | (142.651)   | (132.205)   | (345.546)    | (136.695)   |
| Benefits  | (24.524)    | (37.649)    | (79.733)     | (38.339)    |
| Payroll tax - FGTS                                      | (12.590)    | (10.848)    | (26.448)     | (11.232)    |
| Others  | (54.429)    | (5.004)     | (86.165)     | (5.266)     |
| Taxes, fees and contributions                           | (1.195.603) | (1.601.591) | (3.905.674)  | (1.635.415) |
| Federal tax   | (300.828)   | (536.294)   | (1.534.806)  | (563.082)   |
| State tax   | (872.609)   | (1.054.196) | (2.340.181)  | (1.054.204) |
| Municipal tax   | (22.166)    | (11.101)    | (30.687)     | (18.129)    |
| Interest on third parties capital                       | (293.612)   | (196.377)   | (823.513)    | (279.263)   |
| Interest  | (103.214)   | (43.484)    | (172.482)    | (44.196)    |

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|                                 |          |           |           |           |
|---------------------------------|----------|-----------|-----------|-----------|
| Rent and leasing operations     | (96.830) | (103.185) | (425.105) | (184.288) |
| Others                          | (93.568) | (49.708)  | (225.926) | (50.779)  |
| Others                          | (44.548) | (37.352)  | (86.128)  | (38.453)  |
| Tax, labor and civil provisions | (44.548) | (37.352)  | (86.128)  | (38.453)  |
| Retained Profit                 | 957.450  | 418.337   | 956.578   | 418.337   |
| minority participation          | -        | -         | 872       | -         |

The accompanying notes are an integral part of these Financial Statements.

## **Telefônica Brasil S.A.**

Notes to the quarterly information

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

### **1. Operations and background**

#### a) Controlling shareholders

Telefônica Brasil S.A., is headquartered at Rua Martiniano de Carvalho, 851, in the capital of the state of São Paulo, Brazil. The Company belongs to the Telefonica Group, the telecommunications industry leader in Spain which is also present in several European and Latin American countries. The Company is controlled by Telefónica S.A., which as of December 31, 2011 and March 31, 2012, held total direct and indirect interest of 73.81% of which 91.76% are common shares and 64.60% are preferred shares.

#### b) Operations

The Company's basic business purpose is the rendering of fixed wire telephone services in the state of São Paulo and mobile telephone services nationwide under Fixed Switch Telephone Service Concession Agreement – (STFC) and authorizations, respectively. The Company and its subsidiaries have also authorizations to provide other telecommunications services, such as data communication to the business market, broadband internet services (under the Speedy and Ajato brands), mobile telephone services ( Personal Mobile Services -SMP) and pay TV services, being: (i) by satellite all over the country (Telefonica TV Digital) and (ii) using (MMDS) Multichannel Multipoint Distribution Service technology in the cities of São Paulo, Rio de Janeiro, Curitiba and Porto Alegre.

The concessions and authorizations were granted by ANATEL, which is in charge of regulating the telecommunication sector in Brazil, according to the Law No 9.472, of July 16, 1997 – General Law of

Telecommunication (“*Lei Geral das Telecomunicações*” - LGT), that was changed by Law No 9.986, of July 18, 2000 (notes 1.b.1 e 1.b.2 below).

The authorizations for use of 2.5GHz frequency associated with pay TV service by MMDS technology were extended in February 16, 2009 and remain in force until 2024.

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

*b.1. Fixed Switch Telephone Service Concession Agreement (STFC)*

The Company is the concessionaire of the STFC to render fixed telephony services in the local network and national long distance calls originated in sector 31 of region 3, which comprises the State of São Paulo (except the municipalities that form the sector 33), established in the General Concession Plan (PGO/2008).

The current Concession Agreement dated June 30, 2011, in place since July 1, 2011 awarded as an onerous title, will be valid until December 31, 2025. However, the agreement can be reviewed on December 31, 2015 and December 31, 2020. Such condition allows ANATEL to set up new requirements and goals for universalization and quality of telecommunication services, according to the conditions in place at that moment.

The Concession Agreement establishes that all assets owned by the Company which are indispensable to the provision of the services described on such agreement are considered reversible assets and are deemed to be part of the concession assets. These assets will be automatically returned to ANATEL upon expiration of the concession agreement, according to the regulation in force at that moment. On March 31, 2012, the carrying amount of reversible assets is estimated at R\$6,689,939 (R\$6,698,899 as of December 31, 2011), comprised of switching and transmission equipment and public use terminals, external network equipment, energy equipment and system and operation support equipment.

In accordance with the Concession Agreement, every two years, during the agreement's new 20-year period, public regime companies will have to pay a fee which will correspond to 2% of its prior-year SFTC

revenue, net of taxes and social contributions. In April of 2011, the Company made a payment for this concept of R\$186,852, based on the 2010 STFC net revenues.

*b.2. Commitments and relatives frequencies for mobile services*

The business of Vivo S.A. ("VIVO"), including the services they can provide, are also regulated by ANATEL. Its action takes place through the issue of regulations and complementary plans.

The authorizations granted by ANATEL may be renewed just once, for a 15- year period. Biannually, after the first renewal, a payment of rates equivalent to 2% (two percent) of the company's revenue for the preceding year, net of taxes and mandatory social contributions related to the application of the Basic and Alternative Plans of Service.

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

Vivo is engaged in cellular mobile telephone services (Personal Mobile Service – SMP), including the activities necessary or useful for the performance of said services, in conformity with the authorities granted to it.

c) Share Trading in Stock Exchanges

c.1. *Shares traded in the São Paulo Stock Exchange (BM&FBovespa)*

On September 21, 1998, the Company started trading its shares in the São Paulo Stock Exchange (BM&FBovespa), under tickers TLPP3 and TLPP4, for common and preferred shares.

The Extraordinary Shareholders' Meetings of Vivo Participações S.A. (Vivo Part.) and Telesp held on October 3, 2011, approved the merger of Vivo Part. into Telesp, which, on the same date, changed its corporate name to Telefônica Brasil S.A. On October 6, 2011, the Company changed its ticker codes to VIVT3 and VIVT4 for common and preferred shares, respectively, and the stock exchange code for Telefônica Brasil (see note 3).

c.2. *Shares traded in the New York Stock Exchange (NYSE)*

On November 16, 1998, the Company started the ADRs trading process in the New York Stock Exchange (NYSE), which currently have the following characteristics:

- Type of share: preferred.
- Each ADR represents 1 (one) preferred share.
- The shares are traded in the form of ADRs through code "VIV" on the New York Stock Exchange.
- Foreign depositary bank: The Bank of New York.
- Custodian bank in Brazil: Banco Itaú S.A.

## Telefônica Brasil S.A.

Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

### 2. Basis of presentation of quarterly information

The consolidated quarterly information (ITR) for the three-months period ended March 31, 2012 is presented by the Company in accordance with the International Financial Reporting Standards (IFRS) issued by *International Accounting Standards Board* (IASB) and the individual and consolidated financial statements are presented in accordance with the accounting practices adopted in Brazil, which comprise the provisions of corporate legislation set forth in Law No. 6,404/76, as amended by Law no. 11,638/07 and by Law no. 11,941/09, and the accounting pronouncements issued by the Brazilian Accounting Pronouncements Board (CPC) and approved by the CVM.

Approval of the issuance of these quarterly information occurred in the Board of Directors meeting held on May 3, 2012.

These quarterly information have been prepared according to the principles, practices and accounting principles consistent with those adopted in preparing the financial statements for the fiscal year ended December 31, 2011, in addition to the new pronouncements, interpretations and amendments that entered into force on 1st January 2012, described as follows:

- Amendments to IAS 12, Income Taxes - Recovery of Underlying Assets

This amendment clarified the determination of deferred tax on investment property measured at fair value. Introduces a rebuttable presumption that the deferred tax on investment property measured at fair value model in IAS 40 should be set based on the fact that their carrying amount will be recovered through the

sale.

The Telefónica Group has chosen not to assess the investment property at fair value method in the initial adoption of International Accounting Standards, so this change does not apply.

- Changes IFRS 7, Financial Instruments: Disclosures – Increase Disclosures Related to the Low –

This amendment requires additional disclosures about financial assets that were transferred but not downloaded in order to enable the user of the information understand the relationship with those assets that have not been downloaded and their associated liabilities. In addition, the amendment requires disclosures about the continuing involvement in financial assets written off to allow the user to assess the nature of the entity's continuing involvement in those assets disposed of, as well as the associated risks.

This amendment became effective for annual periods beginning on or after July 1, 2011 and in Brazil, only after the approval of the CPC and deliberation by the CVM for public companies. Currently this amendment is in the CPC Public Hearing.

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

It is worth mentioning that the amendment in question only affects the disclosures, but does not currently apply to the Company and has no impact on their performance or financial condition.

New IFRS and Interpretations of the IFRS (International Financial Reporting Interpretations Committee - IFRIC) not yet effective at March 31, 2012.

At the date of these quarterly information the following IFRS, amendments and interpretations of the IFRIC have been issued but their application was not mandatory:

|                      | <b>Standards and Amendments to Standards</b>                                 | <b>Application required:<br/>fiscal years beginning<br/>as from</b> |
|----------------------|--|---|
| Amendments to IAS 1  | <i>Presentation of items of other comprehensive income</i>                   | July 1, 2012  |
| IFRS 9               | <i>Financial instruments</i>   | January 1, 2013   |
| IFRS 10              | <i>Consolidated Financial Statements</i>                                     | January 1, 2013   |
| IFRS 11              | <i>Joint Arrangements</i>  | January 1, 2013   |
| IFRS 12              | <i>Disclosure of Interests in Other Entities</i>                             | January 1, 2013   |
| IFRS 13              | <i>Fair Value Measurement</i>  | January 1, 2013   |
| IAS 19 revised       | <i>Employee Benefits</i>   | January 1, 2013   |
| IAS 27 revised       | <i>Consolidated and Separate Financial Statements</i>                        | January 1, 2013   |
| IAS 28 revised       | <i>Investments in Associates and jointly controlled companies</i>            | January 1, 2013   |
| Amendments to IFRS 7 | <i>Disclosure – offsetting of financial assets and financial liabilities</i> | January 1, 2013   |
| Amendments to IAS 32 |  | January 1, 2014   |

*Offsetting Financial Assets and Financial  
Liabilities*

The Company is currently analyzing the impact of the application of these standards, amendments and interpretations. Based on preliminary analysis made up to the present date the Company estimates that their application will not have a significant impact on the consolidated financial statements on first time adoption. Notwithstanding, changes introduced by IFRS 9 will affect the presentation of financial assets and transactions with those occurring as from January 1, 2015.

**2.1 Comparative Information**

These ITRs compares the quarters ended March 31, 2012 and 2011, except in relation to the balance sheets, which are comparing the positions on March 31, 2012 to December 31, 2011.

The table below shows the relationship of the companies controlled, directly and indirectly by the Company and the percentage of stake in the company:

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

| <b>Subsidiaries</b>                    | <b>Mar/2012</b> | <b>Dec/2011</b> |
|--|-----------------|-----------------|
| Vivo S.A (1)                           | 100%            | 100%            |
| Telefônica Data S.A.                   | 100%            | 100%            |
| A.Telecom S.A.                         | 100%            | 100%            |
| Telefônica Sistema de Televisão S.A.   | 100%            | 100%            |
| Ajato Telecomunicações Ltda.           | 100%            | 100%            |
| GTR Participações e Empreend. S.A. (2) | 66,67%          | 66,67%          |
| TVA Sul Paraná S.A. (2)                | 91,50%          | 91,50%          |
| Lemontree S.A. (2)                     | 83,00%          | 83,00%          |
| Comercial Cabo TV São Paulo S.A. (2)   | 93,19%          | 93,19%          |
| Aliança Atlântica Holding B.V.(3)      | 50%             | 50%             |
| Companhia AIX de Participações (3)     | 50%             | 50%             |
| Companhia ACT de Participações (3)     | 50%             | 50%             |

(1) fully consolidated since April, 2011 (Notes 1."e" and 3).

(2) fully consolidated since January 2011.

(3) Jointly controlled.

The main events and changes in the consolidation environment that, due to their significance, should be considered for analysis of the consolidated three months period ended March 31, 2012, are presented as follows:

a) Acquisition of Vivo Participações S.A. by the Company

In the Company's Extraordinary General Meeting held on April 27, 2011, was approved by unanimous vote, the Protocol of Merger of Shares and Justification signed between the Company and Vivo Part.. Each share of Vivo Part. has been exchanged by 1.55 shares of the Company. Due to this merger of shares, the Company's capital was increased by R\$ 31,222,630.

b) Grouping of SMP authorizations and incorporations of Vivo Participações S.A.

In a meeting of the Board of Directors of the subsidiary Vivo Part. held on June 14, 2011, was approved the proposal for merger of licenses to provide SMP service (previously held by Vivo Part. in the state of Minas Gerais and by Vivo in other states of Brazil), thus unifying the operations and of Authorization terms of SMP operation in Vivo.

The means proposed in making this corporate restructuring viable were the transfer, on October 1, 2011 of assets, rights and obligations related to the operation of SMP services in Minas Gerais by Vivo Part. to Vivo (mobile operator in the group that had SMP authorizations in other states of Brazil). When this grouping was completed, Vivo Part became a holding.

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

In accordance with the provisions of Law No. 6,404/76, a specialized company was engaged to prepare a valuation study for the part of Vivo Part.'s net assets corresponding to SMP operations in the state of Minas Gerais that was transferred to Vivo S.A.'s equity, as well as for the net equity of Vivo Part. that was incorporated into the Company.

Due to the fact that Vivo Part. was a whole owned subsidiary of the Company, since April 27, 2011, which net equity already included the investment of the shares in Vivo S.A., the merger: i) did not result in a capital increase for the Company; ii) there was no exchange of shares held by Vivo Part. non-controlling shareholders for Company's shares; and iii) there was no need to prepare a net equity valuation report to market price for the calculation of the exchange share ratio, as there didn't exist non-controlling shareholders to be protected.

Accordingly, under the terms of article 226, paragraphs I and II of Law No. 6,404/76, shares held by the Company in the net equity value of Vivo Part. were cancelled. On conclusion of the corporate restructuring, Vivo Part. was incorporated by the Company on October 3, 2011 and Vivo S.A. became its full subsidiary, simplifying and rationalizing the cost structure of the companies involved.

The ITRs include the Company's consolidated results of Vivo Part. (Incorporated by the Company on October 3, 2011) and Vivo results from April 1<sup>st</sup>, 2011. Vivo Participações S.A. and Vivo S.A. were included in the Company's consolidated financial statements through the full consolidation method.

c) Consolidation of TVA companies

As from June 1, 2011, the Company started to include the companies GTR Participações e Empreendimentos S.A., TVA Sul Paraná S.A., Lemontree Participações S.A. and Comercial Cabo TV São Paulo S.A. in its consolidated financial statements by applying the full consolidation method. Previously, these companies were included in the Company's consolidated financial statements through the equity method.

d) Acquisition of Lemontree Participações S.A. shares

On September 29, 2011, the Company purchased 68,533,233 common shares representing 49% of the referred class of shares of Lemontree Participações S.A., which is the holder of 80.1% of the common shares of Comercial Cabo TV São Paulo S.A., a company engaged in cable TV services in the State of São Paulo. As a consequence, the Company currently has an interest of 83% in Lemontree Participações S.A. and 93.19% in Comercial Cabo TV São Paulo S.A. This transaction was considered as a non-controlling shareholders' acquisition for the purpose of disclosure and measurement in these quarterly information.

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31,2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

**3. Business Combination - Acquisition of Vivo Participações S.A. (Vivo Part.)**Fiscal year 2011

As described in Note 2.a) on April 27, 2011, the shareholders' meetings of the Company and Vivo Part. approved the acquisition of 100% of the shares of the latter by the Company, each share of Vivo Part. has been replaced by 1.55 shares of the Company. This operation was recorded using the acquisition method.

The provisional fair values, goodwill and cost of the identifiable assets acquired and liabilities assumed in this transaction at acquisition dates were the following:

|  | <b>In R\$ thousands<br/>(provisional data)</b> | <b>Vivo Part.<br/>Fair value</b> |
|--|--|----------------------------------|
| Current assets                               |  | 7,244,124                        |
| Non-current assets                           |  | 28,134,683                       |
| Deferred tax asset, net <sup>(2)</sup>       |  | 417,883                          |
| Other non-current assets                     |  | 2,385,177                        |
| Property, plant and equipment                |  | 6,198,358                        |
| Intangible assets <sup>(1)</sup>             |  | 19,133,265                       |
| Current liabilities                          |  | (7,964,209)                      |
| Non-current liabilities                      |  | (5,352,456)                      |
| Other non-current liabilities <sup>(3)</sup> |  | (5,352,456)                      |

|                                    |                   |
|------------------------------------|-------------------|
| <b>Net asset amount</b>            | <b>22,062,142</b> |
| Cost of shareholdings              | 31,222,630        |
| <b>Goodwill of the transaction</b> | <b>9,160,488</b>  |

(1) Includes the allocation of fair value attributed to licenses (R\$12,876,000), trademark (R\$1,642,000) and customer base (R\$2,042,000). The Company does not consider trademark and customer base as deductible items for tax purposes.

(2) Includes the recognition of deferred income tax over (1) and (3).

(3) Includes allocation of fair value attributed to contingent liabilities of R\$283,000.

The fair value of accounts receivables for products sold and services rendered totals R\$2,809,561. The gross amount is R\$3,027,732. Over the gross amount of accounts receivables for products sold and services rendered, an allowance for doubtful accounts of R\$218,171 was recorded, for which settlement is expected in the net value of this provision.

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31,2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

According to /IFRS 3 (R) - Business Combination, the acquirer must recognize, on the date of acquisition, contingent liabilities assumed on a business combination even if it is not likely that the outflow of resources to settle the liability are necessary, as long as a present obligation arising from past events exists and its fair value can be reliably measured. In compliance with the criteria above, in this acquisition, a contingent liability at fair value of R\$283,000 was recognized, based on the possible cash outflow estimated for its settlement on the acquisition date (see note 19).

| <b>Analysis of cash flow on acquisition</b>  | <b>R\$thousand</b> |
|--|--------------------|
| Transaction costs (included in cash flows from operating activities)                                 | (9,066)            |
| Cash and cash equivalents of the company acquired (included in cash flows from investing activities) | 1,982,898          |
| <b>Net cash of outflow and cash equivalents from the acquisition</b>                                 | <b>1,973,832</b>   |

The transaction costs incurred to date in an amount of R\$9,066 were recorded in the statement of income as other operating expenses.

For information purposes only, we presented below an unaudited and/or not reviewed *pro forma combined statement of income* between the Company and the acquired company, Vivo Part., should the acquisition have taken place on January 1, 2011, without considering retroactively as of this date the accounting effects of the purchase price allocations (PPA). This statement does not intend to represent the real results of the operations of the Company should the restructuring have taken place on the specified date, nor should it be used to project results of the Company's operations on any date or future period.

For the three-months period ended March 31, 2011 (unaudited/not reviewed)

|   | <b>Telefônica<br/>Brasil<br/>Consolidated<br/>for<br/>the fiscal year<br/>ended<br/>March 31,<br/>2011</b> | <b>Vivo<br/>Consolidated<br/>for the three<br/>months<br/>period<br/>ended<br/>March 31,<br/>2011</b> | <b>Elimination<br/>(b)</b> | <b>Telefônica<br/>Brasil<br/>Combined</b> |
|---|--|---|----------------------------|---|
| <b>Net operating revenue</b>                            | 3,974,696  | 4,852,749   | (809,940)                  | 8,017,505                                 |
| Costs of goods and services (a)                         | (2,404,009)  | (2,276,981)   | 773,395                    | (3,907,595)                               |
| <b>Gross profit</b>                                     | 1,570,687  | 2,575,768   | (36,545)                   | 4,109,910                                 |
| <b>Operating (expenses) income</b>                      | (917,136)  | (1,470,292)   | 36,545                     | (2,350,883)                               |
| Selling (a)   | (775,188)  | (1,120,930)   | 36,545                     | (1,859,573)                               |
| General and administrative (a)                          | (170,259)  | (310,416)   | -                          | (480,675)                                 |
| Other operating income (expenses), net                  | 28,311   | (38,946)  | -                          | (10,635)                                  |
| <b>Operating income before financial expense, net</b>   | 653,551  | 1,105,476   | -                          | 1,759,027                                 |
| Financial expense, net                                  | 27,892   | (39,794)  | -                          | (11,902)                                  |
| <b>Income before income tax and social contribution</b> | 681,443  | 1,065,682   | -                          | 1,747,125                                 |
| Income tax and social contribution                      | (263,105)  | (355,476)   | -                          | (618,581)                                 |
| <b>Net income for the period (c)</b>                    | 418,338  | 710,206   | -                          | 1,128,544                                 |

(a) Includes depreciation and amortization expenses amounting to R\$1,084,368.

(b) Includes mainly revenues and interconnection costs.

(c) Combined net income would be R\$997,077 in march, 2011, should the effects of the amortization of intangible assets of the first 3 months of 2011 (R\$199,193), net of deferred income taxes amounting to R\$67,726, have been included.

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

(In thousands of reais)

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**4. Cash and cash equivalents**

|                        | Company  |          | Consolidated |           |
|------------------------|----------|----------|--------------|-----------|
|                        | Mar/2012 | Dec/2011 | Mar/2012     | Dec/2011  |
| Bank accounts          | 1,361    | 17,969   | 30,020       | 77,404    |
| Short-term investments | 875,941  | 808,933  | 3,147,326    | 2,862,938 |
| Total                  | 877,302  | 826,902  | 3,177,346    | 2,940,342 |

Short-term investments are basically CDB (Bank Deposits Certificate), indexed under CDI (Inter-bank Deposits Certificate) rate variation, which are readily liquid and maintained with reputable financial institutions.

**5. Trade accounts receivable, net**

|  | Company   |           | Consolidated |             |
|--|-----------|-----------|--------------|-------------|
|  | Mar/2012  | Dec/2011  | Mar/2012     | Dec/2011    |
| Billed amounts                                   | 1,776,296 | 1,742,090 | 3,440,041    | 3,461,465   |
| Interconnection receivable                       | 206,620   | 210,668   | 869,284      | 930,178     |
| Accrued unbilled amounts                         | 891,722   | 941,614   | 1,778,647    | 1,855,801   |
| Gross accounts receivable                        | 2,874,638 | 2,894,372 | 6,087,972    | 6,247,444   |
| Allowance for reduction of the recoverable value | (607,625) | (607,736) | (1,103,978)  | (1,056,729) |

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|                               |           |           |           |           |
|-------------------------------|-----------|-----------|-----------|-----------|
| Total                         | 2,267,013 | 2,286,636 | 4,983,994 | 5,190,715 |
| Current                       | 1,597,582 | 1,653,269 | 3,806,059 | 4,103,377 |
| Past-due – 1 to 30 days       | 378,833   | 371,256   | 657,887   | 631,923   |
| Past-due – 31 to 60 days      | 108,642   | 97,504    | 225,954   | 204,775   |
| Past-due – 61 to 90 days      | 51,053    | 46,932    | 130,978   | 115,125   |
| Past-due – 91 to 120 days     | 22,354    | 24,188    | 53,546    | 49,815    |
| Past-due – more than 120 days | 108,549   | 93,487    | 109,570   | 85,700    |
| Total                         | 2,267,013 | 2,286,636 | 4,983,994 | 5,190,715 |
| Current                       | 2,267,013 | 2,286,636 | 4,901,347 | 5,105,860 |
| Non-current                   | -         | -         | 82,647    | 84,855    |

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

(In thousands of reais)

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Changes in Allowance for reduction of the recoverable value

|   | Company<br>Mar/2012 | Consolidated<br>Mar/2012 |
|---|---------------------|--------------------------|
| Opening balance                                 | (607,736)           | (1,056,729)              |
| Provision charged to selling expenses (Note 25) | (77,944)            | (181,860)                |
| Write-offs                                      | 78,055              | 134,611                  |
| Ending balance                                  | (607,625)           | (1,103,978)              |

Subsidiary A.Telecom offers “Posto Informático”, a product that consists of the lease of IT equipment to small and medium-sized companies for fixed installments received over the agreed term. Considering the related contractual conditions, this product was classified as “Finance Lease” in the financial statements as of March 31, 2012 and December 31, 2011.

The consolidated accounts receivable as of March 31, 2012 and December 31, 2011 reflect the following effects:

|  | Mar/2012 | Dec/2011 |
|--|----------|----------|
| Present value of minimum payments receivable     | 261,261  | 261,933  |
| Unrealized financial income                      | 7,895    | 8,941    |
| Gross investment in finance lease receivables    | 269,156  | 270,874  |
| Allowance for reduction of the recoverable value | (76,240) | (69,375) |
| Financial Leases receivable, net                 | 192,916  | 201,499  |

|             |         |         |
|-------------|---------|---------|
| Current     | 110,269 | 116,644 |
| Non-current | 82,647  | 84,855  |

Aging list of financial leases receivable on March 31, 2012:

| Year                          | Gross Investment | Present Value |
|-------------------------------|------------------|---------------|
| Falling due within one year   | 178,614          | 178,614       |
| Falling due within five years | 90,542           | 82,647        |
| Total                         | 269,156          | 261,261       |

There are neither unsecured residual values that produce benefits to the lessor nor contingent payments recognized as revenues during the year.

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31,2012

(In thousands of reais)

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**6. Inventories**

|   | Company  |          | Consolidated |          |
|---|----------|----------|--------------|----------|
|   | Mar/2012 | Dec/2011 | Mar/2012     | Dec/2011 |
| Consumption materials   | 52,731   | 54,124   | 84,037       | 94,547   |
| Resale items (*)  | 7,030    | 7,030    | 411,604      | 435,032  |
| Other inventories   | 6,960    | 6,333    | 7,283        | 6,468    |
| Allowance for reduction to net recoverable value and obsolescence | (29,727) | (35,651) | (68,202)     | (64,326) |
| Total current   | 36,994   | 31,836   | 434,722      | 471,721  |

(\*) Includes, among others, cellphones, IT equipments and simcard (chip).

Below, we present the changes in the allowance for reduction to net recoverable value and obsolescence:

|                 | Company<br>Mar/2012 | Consolidated<br>Mar/2012 |
|-----------------|---------------------|--------------------------|
| Opening balance | (35,651)            | (64,326)                 |
| Additions       | (2,444)             | (13,903)                 |
| Reversion       | 8,368               | 10,027                   |
| Ending balance  | (29,727)            | (68,202)                 |

**7. Deferred and recoverable taxes****7.1 Recoverable taxes**

|  | Company   |           | Consolidated |           |
|--|-----------|-----------|--------------|-----------|
|  | Mar/2012  | Dec/2011  | Mar/2012     | Dec/2011  |
| Withholding taxes                              | 86,146    | 106,072   | 139,768      | 152,919   |
| Recoverable income tax and social contribution | 820,364   | 1,051,864 | 905,876      | 1,143,988 |
| ICMS (state VAT) (*)                           | 392,480   | 422,679   | 1,669,723    | 1,665,896 |
| ICMS (state VAT)-Convênio 39/Portaria CAT 06   | 263,463   | 284,959   | 286,336      | 307,832   |
| PIS and COFINS                                 | 39,901    | 43,898    | 184,623      | 210,950   |
| Other  | 11,196    | 9,141     | 30,476       | 28,440    |
| Total  | 1,613,550 | 1,918,613 | 3,216,802    | 3,510,025 |
| Current  | 1,021,601 | 1,130,761 | 2,406,472    | 2,495,066 |
| Non-current                                    | 591,949   | 787,852   | 810,330      | 1,014,959 |

(\*) The amount refers mainly to credits on the acquisition of property, plant and equipment items, available for offset against VAT obligations in 48 months.

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31,2012

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**7.2 Deferred taxes**

The Company and its subsidiaries recognized deferred income and social contribution tax assets considering the existence of taxable income in the last five fiscal years and the expected generation of future taxable based on a technical feasibility study, approved by the Board of Directors on December 12, 2011.

|   | Company  |          | Consolidated |          |
|---|----------|----------|--------------|----------|
|   | Mar/2012 | Dec/2011 | Mar/2012     | Dec/2011 |
| <u>Deferred Assets</u>  |          |          |              |          |
| Tax loss carry-forwards – Income tax and social contribution (a)  | 75,916   | -        | 290,237      | 348,576  |
| Provisions for tax, labor and civil claims                        | 688,168  | 671,989  | 849,193      | 888,297  |
| Post-retirement benefit plans                                     | 100,688  | 98,833   | 100,688      | 98,833   |
| Allowance for reduction of the recoverable value                  | 93,013   | 97,466   | 187,254      | 178,433  |
| Allowance for obsolescence of modems and others                   | 8,453    | 8,745    | 8,453        | 8,745    |
| Employee Profit sharing   | 18,928   | 43,368   | 37,630       | 82,564   |
| Accelerated depreciation  | 110,200  | 101,668  | 441,060      | 433,512  |
| Allowance for reduction of inventory to recoverable value         | 10,107   | 12,121   | 15,991       | 17,542   |
| Provision for loyalty program                                     | -        | -        | 23,399       | 23,399   |
| Derivatives   | 37,352   | 37,352   | 69,387       | 69,387   |
| Merged tax credits (b)  | 18,922   | 22,076   | 37,586       | 46,962   |
| Other Provisions  | 129,087  | 129,087  | 324,118      | 354,916  |
| Income tax and social contribution on other temporary differences | 130,870  | 99,143   | 409,003      | 308,462  |

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
|  | 1,421,704 | 1,321,848 | 2,793,999 | 2,859,628 |
|--|-----------|-----------|-----------|-----------|

Deferred liabilities

|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Technological innovation Law                                      | (221,478)   | (224,254)   | (329,327)   | (333,156)   |
| Exchange rate variation   | (16,877)    | (14,742)    | (16,877)    | (14,742)    |
| Merged tax credits (b)  | (220,005)   | (207,668)   | (220,005)   | (207,668)   |
| Client portfolio  | (609,768)   | (630,896)   | (609,768)   | (630,896)   |
| Trademarks and patents  | (529,650)   | (536,808)   | (529,650)   | (536,808)   |
| License   | (159,951)   | (79,976)    | (159,951)   | (79,976)    |
| Effects of goodwill generated by the merger of Vivo Part.         | (280,253)   | (258,695)   | (280,253)   | (258,695)   |
| Goodwill of Vivo Participações S.A.                               | (106,748)   | (53,374)    | (106,748)   | (53,374)    |
| Income tax and Social contribution on other temporary differences | (111,568)   | (104,389)   | (111,568)   | (104,389)   |
|   | (2,256,298) | (2,110,802) | (2,364,147) | (2,219,704) |
| Total non-current asset (liability), net                          | (834,594)   | (788,954)   | 429,852     | 639,924     |

a) Tax loss carryforward and negative tax base: represent the amount recorded by the Company and its subsidiaries which, pursuant to the Brazilian legislation, may be offset up to the limit of 30% of the taxable income computed in the coming fiscal years and subject to no statute of limitations. The subsidiaries Telefônica Data S.A. and Telefônica Sistema de Televisão S.A. did not record the potential deferred income and social contribution taxes credit that would arise from the use of the tax loss carryforwards and negative tax bases in the amount of R\$13,779 at March 31, 2012, given the uncertainty, at this time, as to these subsidiaries ability to generate sufficient future taxable results to ensure the realization of these deferred taxes.

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

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(In thousands of reais)

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Below we present tax credit amounts from tax loss carryforwards recognized and not recorded by the Company and its subsidiaries. During three months period ended March 31, 2012, there was no significant change in the Company's business or those of its subsidiaries that would indicate the need for a provision for the aforementioned tax credits.

|  | Income<br>Tax | Company<br>Social<br>Contribution | Total   |
|--|---------------|-----------------------------------|---------|
| Tax-loss carry-forward and negative base at 03/31/2012 | 220,726       | 230,384                           | 451,110 |
| Tax credit (25% + 9%)                                  | 55,181        | 20,735                            | 75,916  |
| Tax credit recognized                                  | 55,181        | 20,735                            | 75,916  |

|  | Income<br>tax | Consolidated<br>Social<br>Contribution | Total     |
|--|---------------|--|-----------|
| Tax-loss carry-forward and negative base at 03/31/2012 | 901,804       | 863,003                                | 1,764,807 |
| Tax credit (25% + 9%)                                  | 225,451       | 78,565                                 | 304,016   |
| Tax credit recognized                                  | 215,338       | 74,899                                 | 290,237   |
| Tax credit not recognized                              | 10,113        | 3,666                                  | 13,779    |

|   | Income<br>Tax | Consolidated<br>Social<br>Contribution | Total     |
|---|---------------|--|-----------|
| Tax-loss carry-forward and negative base<br>at 12/31/2011 | 1,195,277     | 1,154,399                              | 2,349,676 |
| Tax credit (25% + 9%)                                     | 298,819       | 103,896                                | 402,715   |
| Tax credit recognized                                     | 259,011       | 89,565                                 | 348,576   |
| Tax credit not recognized                                 | 39,808        | 14,331                                 | 54,139    |

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Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

(In thousands of reais)

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b) Merged tax credit: Relate to tax benefits arising from corporate reorganizations represented by goodwill amounts based on future expected profitability to be used in compliance with the limits established by tax legislation.

Changes in deferred income and social contribution tax assets and liabilities:

| Deferred Tax Assets   | December 31,<br>2011 | Additions | Write-offs/realization | Company<br>March 31,<br>2012 |
|-----------------------|----------------------|-----------|------------------------|------------------------------|
| Tax Losses            | -                    | 75,916    | -                      | 75,916                       |
| Other deferred assets | 1,321,848            | 58,293    | (34,353)               | 1,345,788                    |
| Total                 | 1,321,848            | 134,209   | (34,353)               | 1,421,704                    |

| Deferred Tax Assets   | December 31,<br>2011 | Consolidated<br>Additions | Consolidated<br>Write-offs/realization | March 31,<br>2012 |
|-----------------------|----------------------|---------------------------|--|-------------------|
| Tax losses            | 348,576              | 75,916                    | (134,255)                              | 290,237           |
| Other deferred assets | 2,511,052            | 58,292                    | (65,582)                               | 2,503,762         |
| Total                 | 2,859,628            | 134,208                   | (199,837)                              | 2,793,999         |

| Deferred Tax Liabilities | Company              |           |                             |                                  | March 31,<br>2012 |
|--------------------------|----------------------|-----------|-----------------------------|----------------------------------|-------------------|
|                          | December<br>31, 2011 | Additions | Write-o ffs/<br>realization | Other<br>comprehensive<br>income |                   |
| Deferred liabilities     | 2,110,802            | 150,239   | (3,749)                     | (994)                            | 2,256,298         |
| Total                    | 2,110,802            | 150,239   | (3,749)                     | (994)                            | 2,256,298         |

| Deferred Tax Liabilities | Consolidated         |           |                             |                                  | March 31,<br>2012 |
|--------------------------|----------------------|-----------|-----------------------------|----------------------------------|-------------------|
|                          | December<br>31, 2011 | Additions | Write-o ffs/<br>realization | Other<br>comprehensive<br>income |                   |
| Deferred liabilities     | 2,219,704            | 150,239   | (4,802)                     | (994)                            | 2,364,147         |
| Total                    | 2,219,704            | 150,239   | (4,802)                     | (994)                            | 2,364,147         |

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

(In thousands of reais)

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**8. Escrow deposits**

The Company and its subsidiaries have escrow deposits and assets frozen by court order in connection with civil, labor and tax lawsuits, as follows:

|                              | Company Nature |                |                  | Freeze of assets by court order | Total     |
|------------------------------|----------------|----------------|------------------|---------------------------------|-----------|
|                              | Labor Claims   | Tax Litigation | Civil Litigation |                                 |           |
| Non-current as of 12/31/2011 | 718,060        | 1,449,211      | 601,347          | 47,346                          | 2,815,964 |
| Additions                    | 46,062         | 6,149          | 28,125           | 64,116                          | 144,452   |
| Write-offs / reversal        | (2,096)        | (410)          | (4,956)          | (71,702)                        | (79,164)  |
| Monetary restatement         | 10,989         | 30,099         | 9,830            | -                               | 50,918    |
| Transfers                    | 56             | (4,784)        | 5,000            | (272)                           | -         |
| Non-current as of 03/31/2012 | 773,071        | 1,480,265      | 639,346          | 39,488                          | 2,932,170 |

|                        | Consolidated Nature |                |                  |                                 | Total     |
|------------------------|---------------------|----------------|------------------|---------------------------------|-----------|
|                        | Labor claims        | Tax litigation | Civil litigation | Freeze of assets by court order |           |
| Total as of 12/31/2011 | 789,705             | 1,938,470      | 715,285          | 73,205                          | 3,516,665 |
| Additions              | 51,207              | 106,254        | 33,055           | 66,411                          | 256,927   |
| Write-offs/reversals   | (2,861)             | (1,118)        | (9,191)          | (73,103)                        | (86,273)  |

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|                        |         |           |         |        |           |
|------------------------|---------|-----------|---------|--------|-----------|
| Monetary restatement   | 11,241  | 38,317    | 10,821  | -      | 60,379    |
| Transfers              | (218)   | (4,454)   | 4,854   | (182)  | -         |
| Total as of 12/31/2012 | 849,074 | 2,077,469 | 754,824 | 66,331 | 3,747,698 |
| Current                | 19,628  | 15,488    | 61,558  | 21,802 | 118,476   |
| Non-current            | 829,446 | 2,061,981 | 693,266 | 44,529 | 3,629,222 |

See note 19, Provisions for further details of the matters that gave rise to these deposits.

On March 31, 2012, the Company and its subsidiaries had several judicial tax deposits totaling R\$2,077,469 (Company R\$1,480,265).

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

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Three-months period ended March 31, 2012

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PIS and COFINS

The subsidiary Vivo is part in judicial claims involving the following matters: i)

claim arising from tax debits offsetting with credits derived from overpayments not recognized by the tax authorities; ii) tax debt derived from underpayment due to fire in the ancillary statements (DCTFs); and iii) disputes referring to changes in rates and increase in the taxable bases introduced by Law No. 9718/98.

As of March 31, 2012, the balance of escrow deposits amounted to R\$69,557. The amounts provisioned related to such escrow deposits are disclosed in note 19.

CIDE

The Company and subsidiaries are involved in administrative and judicial disputes for the exemption of the CIDE levied on offshore remittances of resources derived from agreements for the transfer of technology, brand and software licensing, etc.

On March 31, 2012, the balance of escrow deposits amounted to R\$127,019 (Company R\$4,907). The amounts provisioned related to such escrow deposits are in note 19.

FISTEL

Due to extensions of licenses terms for utilization of telephony switches associated with the performance of commuted fixed telephony services (fixed operators) and extensions for the use of radio frequencies associated with the performance of personal mobile services (mobile operators), ANATEL collected TFI on the extension of the licenses granted and on the radio base stations, mobile stations and radio links.

Such tax collection was due to ANATEL's belief that the extension was a TFI taxable event. The Company and its subsidiaries have separately contest this tax at the administrative and judicial level in the belief that this collection is improper.

As of March 31, 2012, the amount deposited in the Company totaled R\$784,039. There are amounts provisioned related to such escrows deposits which are disclosed in note 19.

### IRRF

The Company and its subsidiaries had legal discussions related to the following topics: **(a)** have no IRRF (Withholding Income Tax) incidence over remittances to other countries for outgoing traffic (fixed operators); **(b)** interest on shareholder's equity paid (mobile operators); **(c)** IRRF levied on rent and royalties income, salary, and fixed-rate financial investments; **(d)** debts referring to the offsetting of IRPJ and CSLL overpayments not recognized by the Federal tax authorities, and debt referring to fines derived from the untimely payment of IRRF.

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As of March 31, 2012, the amount deposited totaled to R\$54,703 (Company R\$46,856). The amounts provisioned related to such escrow deposits are disclosed in note 19.

IRPJ

The Company and its subsidiaries were party to judicial claims involving the following matters: **(a)** claims arising from tax debits offsetting with credits derived from overpayments not recognized by the Federal tax authorities; and **(b)** requirement of IRPJ estimates and lack of payment – debts in the integrated system of economic-fiscal information (SIEF).

As of March 31, 2012, the balance of escrow deposits amounted to R\$24,328 (Company R\$23,053). There are amounts provisioned related to such escrow deposits which are disclosed in note 19.

EBC (Empresa Brasil de Comunicação) Contribution

Sinditelebrasil (Union of Telephony and Cellular and Personal Mobile Service Companies) filed a writ of mandamus challenging the Contribution for Development of the Public Radio Broadcasting payable to EBC, created by Law No. 11,652/2008. The Company and its subsidiaries, as members of the union, made escrow deposits referring to that contribution.

As of March 31, 2012 the amounts deposited totaled R\$358,241 (Company R\$33,089). The amounts provisioned related to such escrow deposits are disclosed in note 19.

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

The Company filed a writ of mandamus in order to nullify the entry stemming from collection of SAT and third party funds on payment of "Indenização Compensatória por Supressão de Benefícios" due to the suspension of collective bargaining agreements of 1996/1997 and 1998/1999.

On March 31, 2012, the balance of escrow deposits totaled R\$76,217.

Guarantee fund for years of service (FGTS)

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The Company filed a writ of mandamus in order to declare its right not to pay surtax of 0.5% and 10% for FGTS – (*Fundo de Garantia por Tempo de Serviço*) established by Supplementary Law No. 110/2001 levied on deposits made by employers (the proceedings did not result in any reduction of part of the deposits for FGTS made by the Company on behalf of its employees).

As of March 31, 2012, the value deposited totaled R\$63,356. The amounts provisioned related to these escrow deposits are disclosed in note 19.

Tax on Net Income (ILL)

The Company filed a writ of mandamus in order to declare its right to offset overpayments of Tax on Net Income with overdue installments of IRPJ.

As of March 31, 2012, the total value deposited amounted to R\$47,527.

Universalization of telecommunications services fund (FUST)

The Company and its subsidiaries filed a writ of mandamus in order to declare its right to: (a) Fixed operations: non-inclusion of interconnection expenses (ITX) and EILD in the FUST tax base and (b) Mobile operations: non-inclusion of interconnection revenue (ITX) and EILD in the FUST tax base, in accordance with the provision Súmula nº 7, dated December 15, 2005, as it does not comply with the provisions contained in sole paragraph of article 6 of Law No. 9,998, dated August 17, 2000.

As of March 31, 2012, the amount deposited totaled R\$313,592 (Company R\$304,392). The amounts provisioned related to these escrow deposits are disclosed in note 19.

Provisional Contribution Tax on Financial Transactions (CPMF)

Due to merger of PTelecom Brasil S.A into the subsidiary Vivo Part., which was later merger into the Company, the escrow deposit balance, related to the writ of mandamus filed by PTelecom Brasil S.A, aiming to reject the requirement for CPMF on symbolic and simultaneous foreign-exchange contracts, required by the Brazilian Central Bank for the conversion of external loan into investment, was incorporated by the Company.

As of March 31, 2012, the amount deposited totaled R\$20,462. The amounts provisioned related to these escrow deposits are disclosed in note 19.

State VAT (ICMS)

The Company and its subsidiaries are involved in judicial discussions comprising the following issues: **(a)** ICMS declared and not paid; **(b)** ICMS not levied on communication in default; **(c)** subject to the payment of fine for late tax payment, paid spontaneously; **(d)** ICMS supposedly levied on access, activation, habilitation, availability and use of services, as well as those related to supplementary services and additional facilities; **(e)** right to credit from the acquisition of goods designated to fixed assets and electricity; and **(f)** activation of cards for pre-paid services.

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As of March 31, 2012, the amount deposited totaled R\$30,590 (Company R\$163). There are amounts provisioned related to these judicial deposits which are disclosed in note 19.

Other taxes and contributions

The Company and its subsidiaries had judicial discussions that comprise the following issues: **(a)** service tax (ISS) over non-core services; **(b)** municipal real estate tax (IPTU) not subject to exemption ; **(c)** municipal inspection, operation and publicity taxes; **(d)** differential rate SAT (1% to 3% - Work Accident Insurance); **(e)** use of soil rate; **(f)** pension contributions regarding the supposed lack of retention of 11% of the value of various bills, invoices and receipts for supplier contracted; **(g)** public price for Numbering Resources Management (PPNUM) by ANATEL.

As of March 31, 2012, the amount deposited totaled R\$107,838 (Company R\$76,204).

**9. Prepaid expenses**

|                           | Company  |          | Consolidated |          |
|---------------------------|----------|----------|--------------|----------|
|                           | Mar/2012 | Dec/2011 | Mar/2012     | Dec/2011 |
| Advertising and publicity | 4,216    | 817      | 148,837      | 171,566  |
| Fistel Tax (a)            | 9,085    | -        | 256,191      | -        |
| Rents                     | 4,920    | 8,520    | 17,649       | 24,126   |
| Insurance                 | 3,663    | 6,452    | 5,787        | 10,289   |
| Software maintenance      | 11,427   | 13,161   | 21,138       | 14,503   |

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|                           |        |        |         |         |
|---------------------------|--------|--------|---------|---------|
| Financial charges         | -      | -      | 4,623   | 3,426   |
| Tax and Contributions     | 13,594 | 326    | 18,359  | 974     |
| Other assets              | 4,897  | 8,429  | 20,983  | 30,172  |
| Total current             | 51,802 | 37,705 | 493,567 | 255,056 |
| Advertising and publicity | -      | -      | 465     | 835     |
| Rents                     | 14,350 | 15,202 | 22,678  | 19,618  |
| Insurance                 | 682    | 860    | 1,391   | 1,695   |
| Financial charges         | -      | -      | 4,945   | 5,317   |
| Other assets              | 2,488  | 2,228  | 8,507   | 4,673   |
| Total non-current         | 17,520 | 18,290 | 37,986  | 32,138  |

(a) Refers to the values and Operation Inspection Fee for the year 2012 which were paid in March and will be amortized by the end of the year.

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

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**10. Other assets**

|  | Company  |          | Consolidated |          |
|--|----------|----------|--------------|----------|
|  | Mar/2012 | Dec/2011 | Mar/2012     | Dec/2011 |
| Advances to employees and suppliers                      | 37,190   | 47,889   | 69,676       | 62,123   |
| Related parties receivables (Note 31)                    | 203,153  | 190,333  | 36,958       | 40,285   |
| Subsidy on the sale of handsets                          | -        | -        | 29,967       | 53,408   |
| Suppliers receivables                                    | -        | 7,050    | 346,799      | 184,748  |
| Dividends and interest on shareholders' equity           | 172,679  | 172,679  | -            | -        |
| Other assets   | 37,321   | 43,015   | 71,002       | 83,248   |
| Total current  | 450,343  | 460,966  | 554,402      | 423,812  |
| Receivables from Barramar S.A. (a)                       | -        | -        | 51,135       | 52,248   |
| Amounts linked to National Treasury securities (note 35) | 445      | 13,819   | 445          | 13,819   |
| Pension assets surplus                                   | 35,929   | 29,621   | 36,838       | 31,210   |
| Related parties receivables (Note 31)                    | 35,351   | 37,068   | 18,215       | 20,214   |
| Other assets   | 28,645   | 28,713   | 30,477       | 30,802   |
| Total non-current  | 100,370  | 109,221  | 137,110      | 148,293  |

(a) Refers to receivables from Barramar S.A., registered in Companhia AIX de Participações, net of allowance for losses.

**11. Investments**

|  | Dec/2011          | Results of<br>Equity Method | Other<br>Comprehensive<br>Income | Mar/2012          |
|--|-------------------|-----------------------------|----------------------------------|-------------------|
| Subsidiaries (I)                               | 10,001,448        | 828,464                     | 2,148                            | 10,832,060        |
| Aliança Atlântica Holding B.V.                 | 52,023            | 90                          | 379                              | 52,492            |
| A. Telecom S.A.                                | 722,857           | (6,761)                     | -                                | 716,096           |
| Companhia AIX de Participações                 | 64,775            | 419                         | -                                | 65,194            |
| Companhia ACT de Participações                 | 3                 | (2)                         | -                                | 1                 |
| Telefônica Data S.A.                           | 198,555           | (40,146)                    | -                                | 158,409           |
| Telefônica Sistemas de Televisão S.A.          | 213,387           | (12,141)                    | -                                | 201,246           |
| Vivo S.A.                                      | 8,685,946         | 898,236                     | 1,769                            | 9,585,951         |
| GTR Participações e Empreendimentos<br>S.A (b) | 2,073             | (357)                       | -                                | 1,716             |
| Lemontree Participações S.A. (b)               | 19,681            | (3,385)                     | -                                | 16,296            |
| Comercial Cabo TV São Paulo S.A. (b)           | 35,517            | (6,011)                     | -                                | 29,506            |
| TVA Sul Paraná S.A. (b)                        | 6,631             | (1,478)                     | -                                | 5,153             |
| Goodwill (I)                                   | 10,208,979        | -                           | -                                | 10,208,979        |
| Other investments (*) (a) (I) (II)             | 35,456            | -                           | 2,687                            | 38,143            |
| Zon Multimédia – direct interest               | 6,737             | -                           | 688                              | 7,425             |
| Other investments                              | 28,719            | -                           | 1,999                            | 30,718            |
| <b>Total company investment (I)</b>            | <b>20,245,883</b> | <b>828,464</b>              | <b>4,835</b>                     | <b>21,079,182</b> |
| Other investment (a) (II)                      | 2,379             | -                           | 242                              | 2,621             |
| Zon Multimédia – direct interest               | 2,379             | -                           | 242                              | 2,621             |
| <b>Total consolidated investment (II)</b>      | <b>37,835</b>     | <b>-</b>                    | <b>2,929</b>                     | <b>40,764</b>     |

(I) Company's Investments

(II) Consolidated's Investments

(a) Other investments are measured at fair value.

(b) Consolidated from January 1, 2011 as mentioned in Note 2.d.

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Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

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Jointly-owned companies consolidated on a proportional basis

The Group has ownership interest of 50% in Aliança Atlântica Holding B.V., Companhia AIX de Participações and Companhia ACT de Participações, which are consolidated on a proportional basis.

The amounts of assets, liabilities, revenues and expenses related to Telefônica Brasil's interest in entities consolidated proportionally at March 31, 2012 and December 31, 2011 included in the consolidated financial statements are set out below:

|                         |            | Mar/2012 |                      |            | Dec/2011 |                      |
|-------------------------|------------|----------|----------------------|------------|----------|----------------------|
|                         | Cia<br>ACT | Cia AIX  | Aliança<br>Atlântica | Cia<br>ACT | Cia AIX  | Aliança<br>Atlântica |
| Current assets          | 2          | 5,972    | 49,882               | 4          | 3,501    | 49,655               |
| Non-current assets      | -          | 63,799   | 2,620                | -          | 65,461   | 2,378                |
| Current liabilities     | 1          | 2,822    | 10                   | 1          | 2,338    | 10                   |
| Non-current liability   | -          | 1,755    | -                    | -          | 1,849    | -                    |
| Shareholders' equity    | 1          | 65,194   | 52,492               | 3          | 64,775   | 52,023               |
|                         |            | Mar/2012 |                      |            | Mar/2011 |                      |
|                         | Cia<br>ACT | Cia AIX  | Aliança<br>Atlântica | Cia<br>ACT | Cia AIX  | Aliança<br>Atlântica |
| Revenue                 | 7          | 6,813    | 100                  | 8          | 6,815    | 173                  |
| Expenses                | (9)        | (6,394)  | (10)                 | (7)        | (5,992)  | (33)                 |
| Net income for the year | (2)        | 419      | 90                   | 1          | 823      | 140                  |



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Three-months period ended March 31, 2012

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**12. Property, plant and equipment, net**

|   | Annual depreciation rate % | Net book value as of 12/31/2011 | Company   |                |                    |              | Net book value as of 03/31/2012 |
|---|----------------------------|---------------------------------|-----------|----------------|--------------------|--------------|---------------------------------|
|   |                            |                                 | Additions | Disposals, net | Transfers, net (b) | Depreciation |                                 |
| Switching equipment                       | 10.00                      | 1,241,120                       | 5,336     | -              | 16,686             | (62,859)     | 1,200,283                       |
| Transmission equipment                    | 5.00 to 10.00              | 4,063,916                       | 79,272    | -              | 79,365             | (112,695)    | 4,109,858                       |
| Terminal equipment and modems             | 10.00 to 66.67             | 963,829                         | 157,884   | -              | (1,904)            | (131,556)    | 988,253                         |
| Infrastructure                            | 4.00 to 12.50              | 2,646,465                       | 6,433     | -              | 45,497             | (68,612)     | 2,629,783                       |
| Other                                     | 10.00 to 20.00             | 207,994                         | 58        | -              | -                  | (14,348)     | 193,704                         |
| Provision for losses (a)                  |                            | (17,467)                        | 1,088     | -              | -                  | -            | (16,379)                        |
| Property, plant and equipment in progress |                            | 585,660                         | 59,673    | (6,859)        | (140,657)          | -            | 497,817                         |
| Total                                     |                            | 9,691,517                       | 309,744   | (6,859)        | (1,013)            | (390,070)    | 9,603,319                       |

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|   | Annual depreciation rate % | Net book value as of 12/31/2011 | Additions | Disposals, net | Transfers, net (b) | Depreciation | Net book value as of 03/31/2012 |
|---|----------------------------|---------------------------------|-----------|----------------|--------------------|--------------|---------------------------------|
| Switching equipment                       | 10.00                      | 1,951,085                       | 16,353    | (9,817)        | 258,590            | (106,170)    | 2,110,041                       |
| Transmission equipment                    | 5.00 to 10.00              | 6,762,835                       | 79,472    | -              | 300,189            | (260,846)    | 6,881,650                       |
| Terminal equipment and modems             | 10.00 to 66.67             | 1,547,053                       | 306,908   | (274)          | (1,904)            | (251,629)    | 1,600,154                       |
| Infrastructure                            | 4.00 to 12.50              | 4,619,972                       | 19,015    | (24,695)       | 113,215            | (171,744)    | 4,555,763                       |
| TV equipments and materials               | 8.00 to 20.00              | 179,169                         | 9,054     | -              | -                  | (32,057)     | 156,166                         |
| Other                                     | 10.00 to 20.00             | 788,382                         | 31,978    | (693)          | 22,896             | (58,620)     | 783,943                         |
| Provision for losses (a)                  |                            | (23,435)                        | (94)      | -              | -                  | -            | (23,529)                        |
| Property, plant and equipment in progress |                            | 1,328,859                       | 409,621   | (6,867)        | (697,635)          | -            | 1,033,978                       |
| Total                                     |                            | 17,153,920                      | 872,307   | (42,346)       | (4,649)            | (881,066)    | 17,098,166                      |

(a) The Company and its subsidiaries recognized a provision for possible obsolescence of materials used for assets maintenance based on historical and expected future use.

(b) See transfers made on Intangible assets.

**Telefônica Brasil S.A.**

Notes to the quarterly information (Continued)

Three-months period ended March 31, 2012

(In thousands of reais)

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Below is the breakdown of cost and accumulated depreciation as of March 31, 2012 and December 31, 2011:

Company

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| Mar/2012                                  | Cost       | Accumulated depreciation | Net book value | Cost       | Accumulated depreciation | Net book value |
|---|------------|--------------------------|----------------|------------|--------------------------|----------------|
| Switching equipment                       | 11,467,965 | (10,267,682)             | 1,200,283      | 15,083,539 | (12,973,498)             | 2,110,041      |
| Transmission equipment                    | 19,961,105 | (15,851,247)             | 4,109,858      | 29,763,978 | (22,882,328)             | 6,881,650      |
| Terminal equipment and modems             | 4,794,042  | (3,805,789)              | 988,253        | 9,137,273  | (7,537,119)              | 1,600,154      |
| Infrastructure                            | 8,535,559  | (5,905,776)              | 2,629,783      | 13,154,737 | (8,598,974)              | 4,555,763      |
| TV equipments and materials               | -          | -                        | -              | 916,919    | (760,753)                | 156,166        |
| Other                                     | 1,384,515  | (1,190,811)              | 193,704        | 3,488,200  | (2,704,257)              | 783,943        |
| Provision for losses (a)                  | (16,379)   | -                        | (16,379)       | (23,529)   | -                        | (23,529)       |
| Property, plant and equipment in progress | 497,817    | -                        | 497,817        | 1,033,978  | -                        | 1,033,978      |
| Total                                     | 46,624,624 | (37,021,305)             | 9,603,319      | 72,555,095 | (55,456,929)             | 17,098,166     |

Company







| Dec/2011                                  | Cost              | Accumulated depreciation | Net book value   | Cost              | Accumulated depreciation | Net book value    |
|---|-------------------|--------------------------|------------------|-------------------|--------------------------|-------------------|
| Switching equipment                       | 11,445,943        | (10,204,823)             | 1,241,120        | 15,084,380        | (13,133,295)             | 1,951,085         |
| Transmission equipment                    | 19,802,238        | (15,738,322)             | 4,063,916        | 30,051,932        | (23,289,097)             | 6,762,835         |
| Terminal equipment and modems             | 4,634,852         | (3,671,023)              | 963,829          | 8,830,900         | (7,283,847)              | 1,547,053         |
| Infrastructure                            | 8,483,629         | (5,837,164)              | 2,646,465        | 13,124,946        | (8,504,974)              | 4,619,972         |
| TV equipments and materials               | -                 | -                        | -                | 907,865           | (728,696)                | 179,169           |
| Other                                     | 1,384,460         | (1,176,466)              | 207,994          | 3,546,825         | (2,758,443)              | 788,382           |
| Provision for losses (a)                  | (17,467)          | -                        | (17,467)         | (23,435)          | -                        | (23,435)          |
| Property, plant and equipment in progress | 585,660           | -                        | 585,660          | 1,328,859         | -                        | 1,328,859         |
| <b>Total</b>                              | <b>46,319,315</b> | <b>(36,627,798)</b>      | <b>9,691,517</b> | <b>72,852,272</b> | <b>(55,698,352)</b>      | <b>17,153,920</b> |

**Telefônica Brasil S.A.**

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Three-months period ended March 31, 2012

(In thousands of reais)

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**13. Intangible assets, net**

|                          | Mar/2012   | Consolidated | Dec/2011   |
|--------------------------|------------|--------------|------------|
| Goodwill                 | 10,225,280 |              | 10,225,280 |
| Other intangibles assets | 19,676,244 |              | 19,828,404 |
| Total                    | 29,901,524 |              | 30,053,684 |

Following is the opening of goodwill on these dates:

| Goodwill  | Consolidated<br>Mar/2012 | Dec/2011   |
|---|--------------------------|------------|
| Ajato Telecomunicações Ltda.                          | 149                      | 149        |
| Goodwill Spanish and Figueira (merged in TDBH) (a)    | 212,058                  | 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)                           | 7,169,577                | 7,169,577  |
| Telemig Celular S.A. (e)                              | 133,896                  | 133,896    |
| Telemig Celular Participações S.A. (e)                | 1,485,172                | 1,485,172  |
| Global Telecom S.A. (e)                               | 204,762                  | 204,762    |
| Tele Centro Oeste Celular (e) Participações S. A. (e) | 150,930                  | 150,930    |
| Ceterp Celular S. A. (e)                              | 16,151                   | 16,151     |
| Total   | 10,225,280               | 10,225,280 |

- (a) Goodwill arising from the spin-off of Figueira, which was merged into the Company as a result of the merger of Telefônica Data Brasil Holding S.A. (TDBH) in 2006.
- (b) Goodwill arising from the acquisition of control over Santo Genovese Participações Ltda. (controlling shareholder of Atrium Telecomunicações Ltda.) in 2004.
- (c) Goodwill arising from the acquisition of TTP (formerly Navytree), incorporated in 2008 which is based on a future profitability analysis.
- (d) Goodwill arising from the acquisition of Vivo Part. in April 2011.
- (e) Goodwill arising from Vivo Participações, converted to the Company through the merger occurred in 2011.

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Three-months period ended March 31,2012

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|                                 | Annual depreciation rate % | Net book value as of 12/31/2011 | Company       |                |                  | Net book value as of 03/31/2012 |
|---------------------------------|----------------------------|---------------------------------|---------------|----------------|------------------|---------------------------------|
|                                 |                            |                                 | Additions     | Transfers, net | Depreciation     |                                 |
| Softwares                       | 20.00                      | 591,725                         | 99,249        | 1,013          | (61,144)         | 630,843                         |
| Customer Portfolio (Network IP) |                            | 1,862,831                       |               |                |                  | 1,798,875                       |
| Trademarks and patents          | 10.00                      |                                 | -             | -              | (63,956)         | 1,557,795                       |
|                                 | 5.00                       | 1,578,846                       | -             | -              | (21,051)         | 12,412,000                      |
| License                         | 3.60 to 20.00              | 12,528,000                      | -             | -              | (116,000)        | 3,589                           |
| Other                           | 10.00 to 20.00             | 3,996                           | -             | -              | (407)            |                                 |
| <b>Total</b>                    |                            | <b>16,565,398</b>               | <b>99,249</b> | <b>1,013</b>   | <b>(262,558)</b> | <b>16,403,102</b>               |

|                        | Annual depreciation rate % | Net book value as of 12/31/2011 | Consolidated |                |                |              | Net book value as of 03/31/2012 |
|------------------------|----------------------------|---------------------------------|--------------|----------------|----------------|--------------|---------------------------------|
|                        |                            |                                 | Additions    | Disposals, net | Transfers, net | Depreciation |                                 |
| Softwares              | 20.00 to 33.33             | 1,861,156                       | 146,799      | (4)            | 134,482        | (184,498)    | 1,957,935                       |
| Customer Portfolio     | 9.00 to 15.00              | 1,862,831                       | -            | -              | -              | (63,956)     | 1,798,875                       |
| Trademarks and patents | 5.00                       | 1,578,846                       | -            | -              | -              | (21,051)     | 1,557,795                       |
| License                | 3.60 to 20.00              | 14,359,981                      | 200          | -              | -              | (165,825)    | 14,194,356                      |

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|                            |                                |            |         |     |           |           |            |
|----------------------------|--------------------------------|------------|---------|-----|-----------|-----------|------------|
| Goodwill                   | According to contractual terms | 7,684      | -       | -   | (7,684)   | -         | -          |
| Other Software in progress | 10.00 to 20.00                 | 24,467     | 2,206   | -   | -         | (1,896)   | 24,777     |
|                            |                                | 133,439    | 142,536 |     | (133,469) | -         | 142,506    |
| Total                      |                                | 19,828,404 | 291,741 | (4) | (6,671)   | (437,226) | 19,676,244 |

**Telefônica Brasil S.A.**

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| Mar/2012                  | Cost              | Company<br>Accumulated<br>depreciation | Net book<br>value | Cost              | Consolidated<br>Accumulated<br>depreciation | Net book<br>value |
|---------------------------|-------------------|--|-------------------|-------------------|---|-------------------|
| Softwares                 | 3,103,985         | (2,473,142)                            | 630,843           | 8,999,204         | (7,041,269)                                 | 1,957,935         |
| Customer<br>Portfolio     | 1,990,278         | (191,403)                              | 1,798,875         | 2,114,561         | (315,686)                                   | 1,798,875         |
| Trademarks and<br>patents | 1,601,408         | (43,613)                               | 1,557,795         | 1,643,511         | (85,716)                                    | 1,557,795         |
| License                   | 12,644,000        | (232,000)                              | 12,412,000        | 15,937,573        | (1,743,217)                                 | 14,194,356        |
| Goodwill                  | -                 | -                                      | -                 | 23,898            | (23,898)                                    | -                 |
| Other                     | 187,711           | (184,122)                              | 3,589             | 685,228           | (660,451)                                   | 24,777            |
| Software in<br>progress   | -                 | -                                      | -                 | 142,506           | -   | 142,506           |
| <b>Total</b>              | <b>19,527,382</b> | <b>(3,124,280)</b>                     | <b>16,403,102</b> | <b>29,546,481</b> | <b>(9,870,237)</b>                          | <b>19,676,244</b> |

| Dec/2011                  | Cost       | Company<br>Accumulated<br>depreciation | Net book<br>value | Cost       | Consolidated<br>Accumulated<br>depreciation | Net book<br>value |
|---------------------------|------------|--|-------------------|------------|---|-------------------|
| Softwares                 | 3,003,719  | (2,411,994)                            | 591,725           | 8,744,914  | (6,883,758)                                 | 1,861,156         |
| Customer Portfolio        | 1,990,278  | (127,447)                              | 1,862,831         | 2,114,561  | (251,730)                                   | 1,862,831         |
| Trademarks and<br>patents | 1,601,408  | (22,562)                               | 1,578,846         | 1,643,511  | (64,665)                                    | 1,578,846         |
| License                   | 12,644,000 | (116,000)                              | 12,528,000        | 15,937,373 | (1,577,392)                                 | 14,359,981        |
| Goodwill                  | -          | -                                      | -                 | 38,800     | (31,116)                                    | 7,684             |
| Other                     | 187,711    | (183,715)                              | 3,996             | 683,021    | (658,554)                                   | 24,467            |
|                           | -          | -                                      | -                 | 133,439    | -   | 133,439           |

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Software in  
progress

|       |            |             |            |            |             |            |
|-------|------------|-------------|------------|------------|-------------|------------|
| Total | 19,427,116 | (2,861,718) | 16,565,398 | 29,295,619 | (9,467,215) | 19,828,404 |
|-------|------------|-------------|------------|------------|-------------|------------|

**14. Payroll and related accruals**

|                         | Company  |          | Consolidated |          |
|-------------------------|----------|----------|--------------|----------|
|                         | Mar/2012 | Dec/2011 | Mar/2012     | Dec/2011 |
| Salaries and fees       | 40,489   | 36,817   | 69,429       | 40,651   |
| Payroll charges         | 106,678  | 95,222   | 223,257      | 223,359  |
| Employee profit sharing | 39,128   | 112,392  | 81,316       | 214,983  |
| Other indemnities       | 23,869   | 7        | 28,869       | 16,631   |
| Total                   | 210,164  | 244,438  | 402,871      | 495,624  |

**Telefônica Brasil S.A.**

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(In thousands of reais)

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**15. Trade accounts payable**

|                      | Company          |                  | Consolidated     |                  |
|----------------------|------------------|------------------|------------------|------------------|
|                      | Mar/2012         | Dec/2011         | Mar/2012         | Dec/2011         |
| Various suppliers    | 1,722,988        | 1,931,462        | 4,733,191        | 5,384,243        |
| Values to pass       | 59,089           | 61,694           | 147,626          | 146,437          |
| Interconnection      | 372,921          | 403,831          | 488,621          | 521,901          |
| Technical assistance | -                | -                | 29,108           | 29,030           |
| <b>Total</b>         | <b>2,154,998</b> | <b>2,396,987</b> | <b>5,398,546</b> | <b>6,081,611</b> |

**16. Taxes payable**

|  | Company  |          | Consolidated |           |
|--|----------|----------|--------------|-----------|
|  | Mar/2012 | Dec/2011 | Mar/2012     | Dec/2011  |
| <b>Direct taxes</b>                    |          |          |              |           |
| Income tax and social contribution (a) | -        | -        | 142,470      | 129,610   |
| <b>Indirect taxes</b>                  | 617,185  | 732,577  | 1,848,737    | 1,995,452 |
| ICMS (state VAT) (b)                   | 500,515  | 588,631  | 1,471,541    | 1,585,884 |
| PIS e COFINS (taxes on revenue)        | 91,790   | 118,295  | 283,164      | 319,981   |
| Fust and Funtel                        | 17,346   | 18,050   | 37,068       | 38,306    |
| Others                                 | 7,534    | 7,601    | 56,964       | 51,281    |

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|             |         |         |           |           |
|-------------|---------|---------|-----------|-----------|
| Total       | 617,185 | 732,577 | 1,991,207 | 2,125,062 |
| Current     | 585,378 | 700,187 | 1,544,445 | 1,691,991 |
| Non-current | 31,807  | 32,390  | 446,762   | 433,071   |

- (a) Income and social contribution taxes payable are presented net of payments on an estimated basis.
- (b) The non-current portion includes the amounts of R\$394,857 at March 31, 2012, which refers to *ICMS – Programa Paraná Mais Emprego*, resulting from an agreement with the Paraná State Government involving the deferral of ICMS tax payment. This agreement indicates that the ICMS becomes due in the 49<sup>th</sup> month following the month in which ICMS tax is calculated. This amount is adjusted to the variation of the Annual Indexation Factor (FCA).

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**17. Loans, Financing and Debentures****17.1 Loans and Financing**

|                                    | Currency | Annual interest rate | Company<br>Maturity | Mar/2012 (*) | Dec/2011 (*) |
|------------------------------------|----------|----------------------|---------------------|--------------|--------------|
| Loans and financing - BNDES        | URTJLP   | TJLP+3.73%           | Until 2015          | 1,230,039    | 1,327,147    |
| Loans and financing - BNDES        | URTJLP   | TJLP+1.73%           | Until 2015          | 66,566       | 71,821       |
| Loans and financing - BNDES        | BRL      | 5.50%                | Until 2021          | 1,923        | 1,912        |
| Loans and financing – Mediocrédito | US\$     | 1.75%                | Until 2014          | 10,964       | 14,027       |
| Loans and financing - BNDES        | BRL      | 108.90% CDI          | Until 2012          | -            | 91,570       |
| Loan – Resolution 4131             | US\$     | 4.10%                | Until 2013          | 281,434      | 282,205      |
| Total                              |          |                      |                     | 1,590,926    | 1,788,682    |
| Current                            |          |                      |                     | 418,743      | 510,899      |
| Non-Current                        |          |                      |                     | 1,172,183    | 1,277,783    |

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|   |          |                      | Consolidated |              |              |
|---|----------|----------------------|--------------|--------------|--------------|
|   | Currency | Annual interest rate | Maturity     | Mar/2012 (*) | Dec/2011 (*) |
| Loans and financing - BNDES (a)                         | URTJLP   | TJLP+3.73%           | Until 2015   | 1,230,039    | 1,327,147    |
| Loans and financing - BNDES (a)                         | URTJLP   | TJLP+1.73%           | Until 2015   | 66,566       | 71,821       |
| Loans and financing - BNDES                             | BRL      | 5.50%                | Until 2021   | 1,923        | 1,912        |
| Loans and financing – Mediocrédito                      | US\$     | 1.75%                | Until 2014   | 10,964       | 14,027       |
| Loan – working capital                                  | BRL      | 108.90% CDI          | Until 2012   | -            | 91,570       |
| Loan – Resolution 4131                                  | US\$     | 4.10%                | Until 2013   | 281,434      | 282,205      |
| Loans and financing - BNDES (b)                         | URTJLP   | TJLP+1.48% to 4.30%  | Until 2019   | 1,564,925    | 1,659,858    |
| Loans and financing - BNDES                             | UMBND    | 5.97%                | Until 2019   | 191,218      | 194,276      |
| Loans and financing - BNDES (c)                         | R\$      | 4.50% to 5.50%       | Until 2020   | 156,582      | 135,471      |
| Loans - European Bank of Investments – BEI              | US\$     | 4.18% to 4.47%       | Until 2015   | 697,668      | 707,975      |
| Loans and financing - Banco do Nordeste do Brasil – BNB | R\$      | 10.00%               | Until 2016   | 405,035      | 438,279      |
| BBVA Comission  | -        | 0.43%                | Until 2015   | 209          | 221          |
| Loans and financing – BNDES (d)                         | URTJLP   | TJLP+5.70%           | Until 2016   | 2,857        | 2,071        |
| Loans and financing – BNDES (d)                         | URTJLP   | TJLP+9.70%           | Until 2016   | 2,357        | 2,341        |
| Loans and financing - BNDES PSI (c)                     | R\$      | 5.50% and 8.70%      | Until 2016   | 23,025       | 17,628       |

Consolidated

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|                               |     |        |      |           |           |
|-------------------------------|-----|--------|------|-----------|-----------|
| Loans and financing - Leasing | R\$ | 14.70% | 2013 | 638       | 726       |
| Total                         |     |        |      | 4,635,440 | 4,947,528 |
| Current                       |     |        |      | 897,064   | 988,413   |
| Non-Current                   |     |        |      | 3,738,376 | 3,959,115 |

(\*) Amounts presented at fair value, when applicable.

#### National Development Bank – BNDES

a) In October 2007, a credit facility to the Company was approved to finance investments in services and products produced domestically. All of these resources have been drawn and their investments are proven and accepted by BNDES.

b) In August 2007 Vivo entered into a credit facility with BNDES in the amount of R\$1,530,459. The funds borrowed were used to finance investment projects in order to expand coverage and increase network capacity throughout the country. Vivo S.A. received the funding gradually and there was no remaining amount available under this credit facility on December 31, 2011. This agreement has a term of seven years, with repayment of principal in 60 consecutive monthly installments commencing September 15, 2009, after a grace period of two years.

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On October 14, 2011 a credit facility totaling R\$3,031,110 was obtained from BNDES. These funds will be invested in the expansion and improvement of the current network, implementation of infrastructure necessary for new technology, in the period from 2011 to 2013, as well as in the construction of a data center in Tamboré (State of São Paulo) and in social projects.

The agreement has a term of eight years and has grace period which expires on July 15, 2014, until when only interest will be paid, on a three-month basis. After this period, interest and amortization of the principal will be paid in 60 consecutive monthly installments.

Since the interest rates applied to two of the five sub-credit lines which constitute this financing agreement are lower than those prevailing in the market (TJLP and TJLP + 1.48%), this transaction falls under the scope of IAS 20/CPC 7. As such, using the effective interest rate method set forth in IAS 39/CPC 38, considerations made are as follows: comparison between i) the total amount of debt calculated based on contractual rates; and ii) the total amount of debt calculated based on market rates (fair value). The government grant from BNDES, adjusted to present value and deferred according to the useful life of the financial asset, was R\$20,664 at March 31, 2012.

At March 31, 2012 R\$1,004,177 had been released.

c) On January 2010, a financing line with the BNDES in the amount up to R\$319,927 was approved through the Investment Maintenance Program (BNDES-PSI). The funds borrowed are being used to improve the network capacity through the acquisition of domestic equipment under previously signed equipment financing with BNDES (Finame), and released as investments are made. Until March 31, 2012 R\$184,489 were granted.

Since the interest rate on this credit line is lower than the rates prevailing in the market (4.5% to 5.5% pre-fixed), this transaction falls into IAS 20/CPC 7. Accordingly, using the effective interest method set forth in IAS 39/CPC 38, considerations made are as follows: comparison between i) the total amount of debt calculated based on contractual rates; and ii) the total amount of debt calculated based on market rates (fair value). The government grant from BNDES, adjusted to present value and deferred according to the useful life of the financed equipment, resulted in the amount of R\$27,742 until March 31, 2012.

With the merger process mentioned in note 2.1.b, Vivo answers for the loan agreements which belonged to the former Vivo Part. (R\$23,899 at March 31, 2012 and R\$24,848 at December 31, 2011).

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d ) In November 2010 and March 2011 BNDES approved credit facilities for Comercial Cabo TV São Paulo S.A. in the amount of R\$40,163. Until March 31, 2012 R\$31,649 were released (R\$24,237 at December 31, 2011). This operation also falls under the scope of IAS 20/CPC 7, due to the fact that interest rates are lower than market rates (5.5% per year pre-fixed), and the subsidy granted by BNDES, adjusted to present value, resulted in the amount of R\$2,957 as of March 31, 2012.

### Médiocrédito

Loan agreed in 1993 between Telecomunicações Brasileiras S.A. – Telebrás and Instituto Centrale per il Credito a Médio Termine – Mediocredito Centrale in the amount of US\$45,546, in order to build a rural telephony via satellite network in the State of Mato Grosso. This loan is paid semiannually and matures in 2014. There is a derivative contracted to hedge the exchange rate currency risks related to such debt and, given it is assessed as an effective hedge, the hedge accounting methodology has been adopted. Therefore, at March 31, 2012, the derivative associated to this instrument was recognized at its fair value as of such date.

### European Investment Bank – EIB

Vivo signed an agreement with EIB for a credit facility in the amount of €250 million (equivalent to US\$365 million). The funding was received in two portions: the first on December 19, 2007 and the second on February 28, 2008. The agreement has a term of seven years, with repayment of principal in two installments falling on December 19, 2014 and March 2, 2015. Interest on this financing is paid semiannually according to the date of credit release. This financing is secured with a swap agreement that converts the foreign exchange risk into a percentage of CDI (interbank deposit rate) variation.

Banco do Nordeste – BNB

On January 29, 2007, Vivo S.A. entered into a credit facility with BNB in the amount of R\$247,240. The funds borrowed were used to expand coverage and increase mobile network capacity in the Northeastern region of Brazil. The agreement has a term of ten years, with repayment of principal in 96 installments after a grace period of 2 years.

On January 30, 2008, Vivo S.A. entered into a credit facility with BNB in the amount of R\$389,000. The funds borrowed were used to expand coverage and increase mobile network capacity in the Northeastern region of Brazil. The agreement has a term of ten years, with repayment of principal in 96 installments after a grace period of 2 years.

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**17.2 Debentures**

|   |          |                           | Company/Consolidated |           |           |
|---|----------|---------------------------|----------------------|-----------|-----------|
|   | Currency | Annual interest rate      | Maturity             | Mar/2012  | Dec/2011  |
| Debentures (2nd issuance) – Serie 2       | R\$      | 106.00% of CDI            | Until 2012           | 355,511   | 346,470   |
| Debentures (4th issuance) – Serie 1 and 2 | R\$      | 108.00% to 112.00% of CDI | Until 2013           | 777,393   | 756,617   |
| Debentures (4th issuance) – Serie 3       | R\$      | IPCA+7.00%                | Until 2014           | 92,275    | 87,390    |
| Debentures (1st issuance) – Telemig       | R\$      | IPCA+0.50%                | Until 2021           | 69,001    | 67,935    |
| Issuance costs                            | R\$      |                           |                      | (1,685)   | (1,981)   |
| Total                                     |          |                           |                      | 1,292,495 | 1,256,431 |
| Current                                   |          |                           |                      | 498,564   | 468,624   |
| Non-current                               |          |                           |                      | 793,931   | 787,807   |

Capital raised by Vivo Part.*2<sup>nd</sup> Issuance*

Consolidated

In connection with the First Securities Distribution Program in the amount of R\$2 billion announced on August 20, 2004, the subsidiary Vivo Part. issued debentures related to the 2nd issuance of the Company, in the amount of R\$1 billion, on May 01, 2005, with a term of ten years, starting from the issuance date on May 01, 2005.

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Debentures were issued in two series: R\$200 million in the first serie and R\$800 million in the second serie with a final maturity on May 4, 2015. The first serie was early redeemed on January 31, 2011, and the second serie pay interest semiannually, after rescheduling, at a rate of 106.0% (second serie) of accumulated daily averages rates of interbank deposits (DI) calculated and published by CETIP S.A. (Clearing House for the Custody and Financial Settlement of Securities).

On July 29, 2011, the General Debenture holder Meeting resolved on the approval of transfer of debentures of the 2<sup>nd</sup> Public Distribution issued by Vivo Part. for Telefônica Brasil without changing the top terms and conditions, and the correspondent amendment of the deed in order to reflect the change in the issuer's ownership.

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*1<sup>st</sup> Serie*

On January 31, 2011 there was an advanced and full redemption of the 1<sup>st</sup> serie of the second issuance of Vivo Part., totaling 20,000 book-entry, non-convertible, unsecured debentures, with par value of R\$10 (ten thousand reais), totaling R\$200 million, which characteristics were approved at the Company's Board of Directors held on April 25, 2005 and May 13, 2005 and the first rescheduling on March 30, 2009.

The redemption was made at unit nominal value of debentures, on the issue date, plus: (i) the due remuneration up to the payment date of redeemed debentures and the (ii) percentage award calculated over the unit nominal value of debentures ("award"), equivalent to R\$4.41 (four reais and forty-one cents), by debenture, in accordance with clause 4.13 of the private instrument of deed of the 2<sup>nd</sup> issue of non-convertible shares.

*2<sup>nd</sup> Serie*

At the meetings held on April 25, 2005 and May 13, 2005, the Board of Directors of Vivo Part. approved the characteristics of the 2<sup>nd</sup> series of the 2<sup>nd</sup> issuance of debentures of the Company.

The 2<sup>nd</sup> series debentures of the 2<sup>nd</sup> issuance of the company were rescheduled on May 3, 2010, according to the conditions approved at the Board of Directors' meeting held on May 29, 2010. The total rescheduled amount was R\$340,230 and the company redeemed and cancelled debentures of dissenting debenture holders in the amount of R\$459,770. The new interest accrual period is 24 months from May 1, 2010, during which time the interest accrual conditions established herein shall remain unchanged. During

this second interest accrual period (until May 1, 2012), the Company's debentures shall carry an interest rate of 106.0% of the average rate of one-day interbank deposit (DI), calculated according to the formula stated in clause 4.9 of the "2nd Issuance Indenture". The interest payments of the debentures will be held on May 2, 2012.

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*4th Issuance*

On September 04, 2009, the Board of Directors of Vivo Part. approved the 4th public issuance, by the company, of simple, unsecured debentures not convertible into stock, all of them registered and of book-entry type, issued in up to three series, with term of 10 years.

The total amount of the issuance was R\$810 million, of which the basic offering corresponds to R\$600 million, added by R\$210 million due to the full exercise of the additional debentures option.

A total of eight hundred and ten thousand (810,000) debentures were issued in three (3) series, being 98,000 debentures in the 1st series, 640,000 in the 2nd series and 72,000 in the 3rd series. The amount of debentures allocated to each of the series was decided in mutual agreement between the Vivo Part. and the Leader Arranger of the Offering, after the conclusion of the Bookbuilding procedure.

The remuneration for the 1st series is 108.00% of CDI, for the 2nd series is 112.00% of CDI and to the 3rd series, coupon of 7.00% per year (on face value updated by the Extended Consumer Price Index - IPCA variation). These debentures accrue interest payable on a semiannual basis in the 1<sup>st</sup> and 2nd series and annual basis in the 3rd series.

Rescheduling of each series is provided for as follows: 1st series, on October 15, 2012, 2nd series, on October 15, 2013, and 3rd series, on October 15, 2014.

The proceeds raised as from the issue of the offering were used for full payment of the debt relating to the 6th issue of commercial promissory notes of the company and to supplement of the working capital of the company.

The transaction costs in connection with this issuance in the amount of R\$1,685 at March 31, 2012 were appropriated to a liabilities reduction account as deferred cost and are recorded as financial expenses, pursuant to the contractual terms of this issue. The actual rate of this issue, considering the transaction costs is 112.13% of the CDI.

The General Debenture-holder Meeting held on July 29, 2011 resolved on the transfer approval of the 4<sup>th</sup> Public Distribution of debentures issued by Vivo Part. to Telefônica Brasil without changes of terms and conditions, and of the correspondent amendment of the Deed in order to reflect the change in the issuer's ownership.

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Funding by Telemig Celular (company incorporated by Vivo Part. at June 1, 2010).

### 1st Issuance

In compliance with the Contract for Provision of SMP Services, in conformity with the Public Selection No 001/07, the State of Minas Gerais, acting through the State Department for Economic Development, has undertaken to subscribe debentures issued by Telemig (company merged at June 1, 2010), within the scope of the “*Minas Comunica*” Program, using proceeds from the Fund for Universalization of Access to Telecommunications Services (*Fundo de Universalização do Acesso a Serviços de Telecomunicações*) – FUNDOMIC. Under the terms of this Program, Telemig Celular would make the SMP service available to 134 locations in the areas recorded as 34, 35 and 38.

Also according to the program, 5,550 simple, unsecured, nonconvertible, registered, book-entry type debentures would be issued, without stock certificates being issued, in up to five series.

In consideration for the certification by the State Department of Economic Development of the service to be provided to 15 locations, 621 debentures were issued in the 1<sup>st</sup> series of the 1<sup>st</sup> issuance, amounting to R\$6,210 in December 2007. In March 2008, for the service at 42 locations, 1,739 debentures were issued in the 2<sup>nd</sup> series of the 1<sup>st</sup> issuance, valued at R\$17,390. At December 31, 2008, for the service at 77 locations, 3,190 debentures were issued in the 3<sup>rd</sup> series of the 1<sup>st</sup> issuance, valued at R\$31,900 thus completing the program for providing service to 134 locations inside the state of Minas Gerais.

### 17.3 Payment Schedule

The maturities of the long-term portion of loans, financing and debentures as of March 31, 2012, are as follows:

| <b>Year</b>  | <b>Company</b>   | <b>Consolidated</b> |
|--------------|------------------|---------------------|
| 2013         | 1,233,983        | 1,578,520           |
| 2014         | 491,752          | 1,102,667           |
| 2015         | 170,155          | 917,733             |
| 2016         | 68               | 271,769             |
| From 2017    | 70,156           | 661,618             |
| <b>Total</b> | <b>1,966,114</b> | <b>4,532,307</b>    |

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**17.4 Guarantees**

At March 31, 2012, guarantees were granted for part of loans and financing of the Company and its subsidiary Vivo, according to the table below:

| <b>Banks</b>                      | <b>Amount of loan/financing</b>  | <b>Guarantees</b>   |
|-----------------------------------|----------------------------------|---|
|                                   | R\$1,564,925 (URTJLP)            | <ul style="list-style-type: none"> <li>Contract (2007) R\$746,353: Guarantee in receivables referring to 15% of the higher between the debt balance or 4 (four) times the highest installment.</li> </ul>   |
| BNDES                             | R\$191,218 (UMBND)               | <ul style="list-style-type: none"> <li>Contract (PSI) R\$156,583: sale of financed assets.</li> <li>Contract (2011) R\$1,005,327: Guarantee in receivables referring to 15% of the higher between the debt balance or 4 (four) times the highest installment.</li> </ul>  |
|                                   | R\$156,582 (PSI Contract - VIVO) |   |
| European Bank of Investment – BEI | R\$697,668                       | <ul style="list-style-type: none"> <li>Telefônica Brasil is the intervening guarantor</li> <li>Commercial risk guaranteed by Banco BBVA Espanha.</li> </ul>   |
| BNB                               | R\$405,035                       | <ul style="list-style-type: none"> <li>Bank guarantee granted by Bank Bradesco S.A. in an amount equivalent to 100% of the debit balance of the financing obtained.</li> <li>Establishing a liquidity fund comprised of short-term investments at an amount equivalent to 3 (three) amortization installments by reference to the average post-grace period installment.</li> </ul> |

- Telefônica Brasil is the intervening guarantor.

## 18. Dividends and interest on shareholders' equity payable

Below, we present balances of the dividends and interest on shareholders' equity payable:

|   | Company/Consolidated |          |
|---|----------------------|----------|
|   | Mar/2012             | Dec/2011 |
| Telefónica Internacional S.A.                 | 156,589              | 156,589  |
| SP Telecomunicações Participações Ltda.       | 126,283              | 126,283  |
| Telefónica S. A.                              | 129,489              | 129,489  |
| Compañía de Telecomunicaciones de Chile S. A. | 310                  | 310      |
| Non-controlling shareholders                  | 557,648              | 560,315  |
| Total   | 970,319              | 972,986  |

Interest on shareholders' equity and dividends payable to minority non-controlling shareholders refer to unpaid declared amounts and to amounts not claimed yet.

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Interest on shareholders equity and dividends unclaimed by shareholders, prescribe in three (3) years from the date of commencement of payment. In the event of the prescription of dividends and interest on shareholders equity, the amounts are recorded against the shareholders equity for later distribution.

**19. Provisions**

The composition of provision balances at March 31, 2012 and December 31, 2011 are as follows:

|                                       | Company   |           | Consolidated |           |
|---------------------------------------|-----------|-----------|--------------|-----------|
|                                       | Mar/2012  | Dec/2011  | Mar/2012     | Dec/2011  |
| Provisions for claims and litigations |           |           |              |           |
| Labor                                 | 424,993   | 425,486   | 530,130      | 526,210   |
| Tax                                   | 1,188,895 | 1,146,930 | 1,757,480    | 1,606,735 |
| Civil and regulatory                  | 506,060   | 490,823   | 691,203      | 664,703   |
| Subtotal                              | 2,119,948 | 2,063,239 | 2,978,813    | 2,797,648 |
| Provision for post-employed benefits  | 296,141   | 291,178   | 314,798      | 308,893   |
| Contingent liabilities (a)            | 264,226   | 256,044   | 264,226      | 256,044   |
| Provision for dismantling             | 13,470    | 13,657    | 184,446      | 200,813   |
| Total                                 | 2,693,785 | 2,624,118 | 3,742,283    | 3,563,398 |
| Current                               | 294,028   | 287,137   | 430,054      | 416,313   |

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|             |           |           |           |           |
|-------------|-----------|-----------|-----------|-----------|
| Non-current | 2,399,757 | 2,336,981 | 3,312,229 | 3,147,085 |
|-------------|-----------|-----------|-----------|-----------|

(a) Related to the goodwill allocation made in connection with the acquisition of Vivo Part. S.A..

The Company, as an entity and also as the successor to the merged companies, and its subsidiaries are involved in labor, tax and civil lawsuits filed with different courts. The management of the Company and its subsidiaries, based on the opinion of its legal counsel, recognized provisions for those cases in which an unfavorable outcome is considered probable. The table below shows the breakdown of provisions by nature and activities during December 31, 2011 until March 31, 2012:

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|                            | Company – Mar/2012 |               |         |           |
|----------------------------|--------------------|---------------|---------|-----------|
|                            | Labor              | Nature<br>Tax | Civil   | Total     |
| Balances as 12/31/2011     | 425,486            | 1,146,930     | 490,823 | 2,063,239 |
| Additions                  | 6,085              | 16,946        | 20,520  | 43,551    |
| Payments – Reversal        | (1,800)            | (229)         | (9,756) | (11,785)  |
| Monetary restatement       | (8,875)            | -             | (7,384) | (16,259)  |
| Monetary Update            | 4,097              | 25,248        | 11,857  | 41,202    |
| Balances as of 03/ 31/2012 | 424,993            | 1,188,895     | 506,060 | 2,119,948 |
| Current                    | 38,642             | -             | 255,386 | 294,028   |
| Non-current                | 386,351            | 1,188,895     | 250,674 | 1,825,920 |

|                            | Consolidated– Mar/2012 |               |          |           |
|----------------------------|------------------------|---------------|----------|-----------|
|                            | Labor                  | Nature<br>Tax | Civil    | Total     |
| Balances as 12/31/2011     | 526,210                | 1,606,735     | 664,703  | 2,797,648 |
| Additions                  | 18,795                 | 117,211       | 52,121   | 188,127   |
| Payments – Reversal        | (10,069)               | (566)         | (31,286) | (41,921)  |
| Monetary restatement       | (9,034)                | (7)           | (7,403)  | (16,444)  |
| Monetary Update            | 4,228                  | 34,107        | 13,068   | 51,403    |
| Balances as of 03/ 31/2012 | 530,130                | 1,757,480     | 691,203  | 2,978,813 |
| Current                    | 76,731                 | 24,339        | 328,984  | 430,054   |
| Non-current                | 453,399                | 1,733,141     | 362,219  | 2,548,759 |

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**19.1 Labor contingencies and provisions**

| <b>Risk</b> | <b>Amount Involved</b> |                 |                     |                 |
|-------------|------------------------|-----------------|---------------------|-----------------|
|             | <b>Company</b>         |                 | <b>Consolidated</b> |                 |
|             | <b>Mar/2012</b>        | <b>Dec/2011</b> | <b>Mar/2012</b>     | <b>Dec/2011</b> |
| Probable    | <b>424,993</b>         | <b>425,486</b>  | <b>530,130</b>      | <b>526,210</b>  |
| Possible    | <b>211,706</b>         | <b>194,564</b>  | <b>422,609</b>      | <b>404,262</b>  |

Provisions and labor contingencies refer to labor claims filed by former's employees and employees at outsourced companies (the later alleging joint or subsidiary liability) claiming for, among others, overtime, wage equivalence, post-retirement salary supplements, job hazard premium, additional for unhealthy work conditions and claims related to outsourcing 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. The claims await the decision by the Regional Labor Court of São Paulo. Based on the opinion of its legal advisors and the current jurisdictional benefits, Company management considers this claim as a possible risk. No amount has been assigned for these claims, since in the case of loss, estimating the corresponding amount payable by the Company is not practicable at this time.

Additionally, the Company is part to public civil actions filed by the Department of Labor, in respect of the decision to restrain the Company to continue hiring outsourced companies to carry out the Company's main activities. No amounts were assigned to the possible likelihood of an unfavourable 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 monetary loss for the Company.

## 19.2 Tax contingencies and provisions

| Risk            | Amount Involved |           |              |            |
|-----------------|-----------------|-----------|--------------|------------|
|                 | Company         |           | Consolidated |            |
|                 | Mar/2012        | Dec/2011  | Mar/2012     | Dec/2011   |
| <b>Probable</b> | 1,188,895       | 1,146,930 | 1,757,480    | 1,606,735  |
| <b>Possible</b> | 6,085,195       | 6,032,640 | 12,198,809   | 11,679,158 |

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### Tax provisions

#### *Federal Taxes*

On March 31, 2012, the Company held tax matters at the administrative and judicial sphere, in connection with **(a)** Unemployment Compensation Fund (FGTS) required by INSS on deposits made by employers (the discussion does not result in the reduction of part of FGTS deposits made by the Company on behalf of employees); **(b)** claims resulting from the non-ratification of compensation and refund requests, formulated by the Company; **(c)** social contributions regarding alleged lack of payment of 11% over the value of several contractor's invoices and receipts for transfer of labor; **(d)** CIDE levied on the remittance of funds abroad relating to technical services, administrative assistance and to services of similar nature, as well as royalties; **(e)** Fixed operations: non-inclusion of Interconnection Expenses in the FUST tax base and Mobile operations: non-inclusion of revenues from ITX and EILD in the FUST tax base; **(f)** contribution to *Empresa Brasil de Comunicação*, created by Law No. 11652/08; **(g)** TFI/TFF on mobile stations; **(e)** IRRF on Interest on Shareholders Equity; **(h)** IRRF on Interest on Shareholders Equity; **(i)** Public Price for Numbering Resources Management (PPNUM) by ANATEL instituted by Resolution No. 451/06; **(j)** IRPJ/PIS/COFINS resulting from the non-ratification of the Companies' offset and refund requests; **(k)** Social Investment Fund (Finsocial) offset amounts; **(l)** lack of withholding social contribution levied on services rendered, remuneration, salaries and other salary bases; **(m)** COFINS – Requirement resulting from non-inclusion of financial income into the tax base; **(n)** additional charges to the PIS and COFINS tax base, as well as additional charges to COFINS required by Law No. 9718/98, which were provisioned in the amount of R\$1,668,361 (Company R\$1,176,839).

#### *State taxes*

On March 31, 2012, the Company and its subsidiaries had administrative and judicial proceedings in progress, in the amount of R\$65,544 (Company R\$28), that according to the opinion of legal advisors, are classified as a probable loss, with full provision recorded.

The aforesaid proceedings comprise: **(a)** ICMS's credits with electric power and credits without documentation; **(b)** ICMS non-taxed on telecommunication services; **(c)** disallowance of ICMS tax incentives for cultural projects; and **(d)** administrative fine environment related.

*Municipal taxes*

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On March 31, 2012, the Company and its subsidiaries kept several tax claims within the municipal scope, both in the administrative and in the judicial sphere amounting to R\$15,785 (Company R\$12,028) which, based on the opinion of its legal advisors, are classified as a probable loss, with full provision of the amounts thereof. The aforesaid claims comprise: (a) IPTU, (b) ISS levied on chattel lease services and secondary and complementary activities, (c) TVCF

*Other provisions*

At March 31, 2012, the Company and its subsidiaries recorded other provisions, relating to legal claims, both in the administrative and in the judicial sphere, amounting to R\$7,790, related to incorrect payment of ISS referring to the effective rendering of services such as lease, sublease, right of way or use right, shared or not, of railway, highway, poles, cables, ducts and conducting wires of any kind.

Possible contingencies

*Federal Taxes*

On March 31, 2012, the Company and its subsidiaries held various administrative and judicial proceedings within the federal scope, which are awaiting trials in various instances, totaling R\$3,503,697 (Company R\$1,582,199).

Among these proceedings, stand out:

**(a)** Non-compliance manifestations due to the ratification of compensation requests made by the Company; **(b)** fine for the distribution of dividends with the allegedly existence of unpaid debts with the federal government; **(c)** social security contribution (INSS) on compensation payment for salary devaluation arising from inflationary losses derived from “*Plano Verão*” (Summer Plan) and “*Plano Bresser*” (Bresser Plan), SAT (Work Accident Insurance), Social Security and payables to third parties (INCRA and SEBRAE), supply of meals to employees, 11% retention (labor assignment); **(d)** IRRF on the funds remittance abroad related to technical services and to administrative support and other, as well as royalties; **(e)** PIS levied on roaming; **(f)** CPMF levied on operations resulting from the technical operation agreement with the National Treasury Department – STN - (offsetting through Integrated System of Federal Government Financial Administration - SIAFI) and on symbolic foreign-exchange contracts required by the Brazilian Central Bank; **(g)** IRPJ and CSLL related to deductions on revenues generated due to the reversal of provisions; **(h)** disallowance of costs and sundry expenses; **(i)** COFINS loss deductions with swap operations; **(j)** PIS / COFINS accrual basis versus cash basis; **(k)** IRPJ due as a result of exceeding allocation to Northeast Investment Fund (FINOR), Amazon Region Investment Fund (FINAM) or Economic Recovery Fund of the State of Espírito Santo (FUNRES); **(l)** IRPJ on derivative operations; **(m)** offsetting of tax over net income-ILL; **(n)** disallowance of expenses related to the goodwill paid in the acquisition of Celular CRT S/A, goodwill arising from the process of privatization and corporate restructuring in VIVO.; **(o)** COFINS compensation, with credits resulting from the excess of 1/3 of their own COFINS.

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According to the Management and its legal advisors' opinion, the chances of losses in these processes are possible.

*State Taxes*

As of March 31, 2012, the Company and its subsidiaries held several administrative and judicial proceedings at the state level, related to ICMS (VAT), in the amount of R\$4,394,978 (Company R\$3,072,702), which are still awaiting for judgment at several court levels.

Among these proceedings, stand out:

**(a)** provision of facility services and rental of Speedy modem; **(b)** international long-distance calls (DDI); **(c)** unduly credit related the acquisition of items designated to fixed assets; **(d)** lack of proportionate credit reversal related to the acquisition of fixed assets; **(e)** previously unused ICMS tax credits; **(f)** service provision outside São Paulo state and ICMS paid to São Paulo State and; **(g)** Co-billing, **(h)** tax substitution with a fictitious tax base (tax guideline); **(i)** use of credits related to the acquisition of energy; **(j)** secondary activities, value added and supplementary services (Agreement 69/98); **(k)** tax credits related to challenges over telecommunications services not rendered or mistakenly charged (Agreement 39/01); **(l)** shipments of products with prices lower than acquisition prices (unconditional discounts); **(m)** deferred charge of ICMS-interconnection (DETRAF – Traffic and Service Provision Document); **(n)** credits derived from tax benefits granted by other state agencies; **(o)** disallowance of tax incentives related to cultural projects; **(p)** transfers of assets among owned establishments; **(q)** communication service tax credits used in provision of services of the same nature; **(r)** card donation for prepaid service activation; and **(s)** reversal of credit derived from return and loan for use operation.

According to the Management and its legal advisors' opinion, the chances of losses in these processes are possible.

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*Municipal taxes*

As of March 31, 2012, the Company and its subsidiaries had several administrative and judicial proceedings within the municipal scope, comprising the total amount of R\$515,110 (Company R\$368,476), which are awaiting trials in the several court instances.

Among these proceedings, stand out:

**(a)** ISS – secondary activities, value added and supplementary services; **(b)** retention; **(c)** IPTU; **(d)** Charge for Soil Use; **(e)** several municipal charges; **(f)** rate for Use of the Mobile Network (TU-M), infrastructure lease; **(g)** advertising services; **(h)** services rendered by third parties; **(i)** business management consulting services provided by Telefônica Internacional (TISA); **(j)** ISS tax levied on caller ID services and on cell phone activation.

According to the Management and its legal advisors' opinion, the chances of losses in these processes are possible.

ANATEL

*Universalization Fund of Telecommunication Services (FUST)*

Writs of Mandamus filed separately by the fixed and mobile operators to recognize the right to: Fixed: non-inclusion of interconnection (ITX) and Industrial Exploration of Dedicated Line (EILD) expenses in the FUST tax basis and mobile: non-inclusion of interconnection (ITX) and Industrial Exploration of Dedicated Line (EILD) expenses in the FUST tax base, pursuant to Precedent No. 7, of December 15, 2005, for being in disagreement with provisions set forth in the sole paragraph of art. 6 of Law No. 9,998/00, which are awaiting for trials in the second lower court.

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Several reports of debit entry drawn up by ANATEL in the administrative order to set the tax credit related to interconnection EILD and other revenues that are not derived from the provision of telecommunications services.

On March 31, 2012, the total amount involved was R\$1,701,853 (Company R\$674,617).

According to the Management and its legal advisors' opinion, the chances of success in these processes are possible.

*FUNTTEL – Telecommunications Technological Development*

On March 31, 2012, the Company and its subsidiaries held administrative and judicial proceedings, totaling R\$582,626 (Company R\$182,816), which are awaiting trial for 1<sup>st</sup> administrative level and 2<sup>nd</sup> judicial 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).

According to the Management and its legal advisors' opinion, the chances of success in these processes are possible.

*Telecommunication Inspection Fund (FISTEL)*

Due to the extension of the effective term of licenses for using telephony switches related to the exploitation of STFC (fixed line operators) and the extension of the effectiveness of right to use radiofrequency associated with the operation of personal mobile service (Mobile Operators), ANATEL performs the collection of the Installation Inspection Charge (TFI).

This collection derives from the understanding of ANATEL that the extension would represent a taxable event of TFI. Based on the understanding it corresponds to an undue collection, the Company and its subsidiaries separately challenged the aforesaid tax in the administrative and judicial levels. The total amount involved R\$1,498,102 (Company R\$203,952 with a full deposit).

According to the Management and its legal advisors' opinion, the chances of losses in these processes are possible.

*PPNUM – Public Price of Numbering Resources Management*

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Vivo, along with other Brazilian mobile operators, are challenging in court the rate charged by ANATEL for the use by the operators of the Numbering Resources managed by the agency. At the time of collections by ANATEL, Vivo made an escrow deposit of the amounts owed. On April 23, 2009, the operators received a favorable judgment and the lawsuit is presently in progress at the Federal Regional Court. The amount involved as of March 31, 2012 was R\$2,010.

According to the Management and its legal advisors' opinion, the chances of losses in these processes are possible.

### *EBC Contribution to Public Broadcasting Investment - EBC*

On May 26, 2009, Sinditelebrasil - Trade Union for Telephony and Mobile and Personal Service Companies, filed a Writ of Mandamus challenging the new contribution to the *Empresa Brasil de Comunicação* - EBC, created by Law No. 11,652/08. No preliminary Order was issued, and the companies affiliated to said trade union, obtained legal authorization to make an escrow deposit of the amount under discussion.

At March 31, 2012, the amount of the claim totaled R\$433, with a full deposit.

### **19.3 Civil contingencies and provisions**

| Risk            | Amount Involved |           |              |           |
|-----------------|-----------------|-----------|--------------|-----------|
|                 | Company         |           | Consolidated |           |
|                 | Mar/2012        | Dec/2011  | Mar/2012     | Dec/2011  |
| <b>Probable</b> | 506,060         | 490,823   | 691,203      | 664,703   |
| <b>Possible</b> | 1,586,517       | 1,429,616 | 2,158,951    | 1,978,973 |

Civil provisions*Main claims*

a) Suits for additional shares. These refer to suits involving the Company and addressing the right to receive additional shares calculated with regard to network expansion plans after 1996. These suits are at various stages: first stage, Supreme Court and Federal Superior Court of Appeals, Considering the risk of a probable loss, provision was recorded in the amount of R\$27,358.

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b) The Company and its subsidiaries are defendants in several 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 Ministry. They are also defendants in other claims of several types, related to the normal course of business. Total provision recorded for such issues amounts to R\$332,200 (consolidated) and R\$171,750 (Company).

*Massive Claims*

Consumption relationship

The Company is also involved in several lawsuits filed by individual consumers, with similar characteristics, which individually are not considered to be material. A provision in the amount of R\$82,737 was recorded, based on statistical analysis of the average historical losses for such claims.

*ANATEL*

At March 31, 2012, the Company and its subsidiaries were involved in several administrative proceedings against Anatel, which were filed based on alleged non-compliance with the obligations established in industry regulations, as well as in legal claims discussing sanctions by Anatel at administrative level, whose likelihood of an unfavorable outcome was assessed as probable, and a provision was recorded in the amount of R\$248,908 (Company R\$224,215), being R\$189,286 related to the provision for administrative claims and R\$34,929 related to the provision for administrative claims at the judicial stage).

Possible contingencies

*Main contingencies*

a) Community Telephone Plan – PCT. Refers to a Public Civil Action to which the Company is party related to the PCT, a plan that claims the possible indemnity rights to purchasers of telephone line expansion plans who did not receive shares for their financial investment in the municipality of Mogi das Cruzes. The total amount involved is approximately R\$206,746. Legal counsel assessed chances of loss as possible; São Paulo Court of Justice (TJSP) has amended the decision, judging the action as inadmissible. The telephony association of Mogi das Cruzes (plaintiff) filed a special appeal to alter this judgment, which is currently awaiting a decision.

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b) Class actions filed by SISTEL Participants Association in the State of São Paulo, in which participants question the changes made to the health care plan for retired employees (PAMA), claiming the re-establishment of previous “status quo”. The claim is still in process as there is no judicial decision in any instance. The risk of loss attributed to this lawsuit by the Company’s legal counsels is possible. The amount is inestimable and the requests illiquid due to its unenforceability, since they involve the return of the conditions regarding the former plan.

c) Public civil actions filed by the i) ASTEL-SISTEL Members Association in the State of Sao Paulo and by ii) FENAPAS - National Federation of Associations of Pensioners, Pensioners and Pension Funds Participants in the Telecommunication Sector, both against SISTEL, the Company and other operators, aiming the annulment of PBS pension plan split, claiming “the dismantling of SISTEL Foundation pension system, which originated several specific plans PBS-mirrors, and corresponding allocation of resources deriving from technical surplus and tax contingencies existing at the time of the split. The risk attributed to this lawsuit by the Company’s legal counsels is possible. The amount is inestimable and the requests illiquid due to its unenforceability, since it involves the assets spun-off from SISTEL referring to the telecommunication operators of the former Telebrás System.

d) The Public Prosecutor Office of the State of São Paulo commenced a class action claiming moral and property 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 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 consumers claiming should the award is not in line with the gravity of their 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 nor the amounts claimed thereby. The Company 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.



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e) The Company and its subsidiaries are involved in 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 Ministry. They are also involved in other claims of several types, related to the normal course of business. Total contingency amounts to R\$955,335 (Consolidated) and R\$391,368 (Company), whose likelihood of an unfavorable outcome has been assessed by their legal advisors as possible.

f) The Company and its subsidiaries have received fines regarding the noncompliance of "Decreto do SAC". We currently have several actions (administrative and judicial proceedings), whose likelihood of an unfavorable outcome has been assessed by legal advisors as possible and the total amount of R\$11,650 consolidated and R\$3,192 company.

g) Intellectual Property: Lune Special Projects Telecommunication Trade and Ind. Ltda, a Brazilian company, proposed the lawsuit on November 20, 2001 against 23 operators of mobile telecommunications service claiming to be possessed of the patent for caller ID, and they hold a trademark "Bina". The actions is in order to interruption of that service by carriers and compensation equivalent to the amount paid by consumers for using the service.

There were unfavorable judgment to determine that Vivo refrain from selling mobile phones with Caller ID service (Bina), with a daily fine of R\$10,000 in case of noncompliance. Furthermore, the sentence condemns Vivo to pay compensation for royalties to be calculated in settlement of the judgment. Embargoes Declaration were opposed by all parties and the motion for clarification of Lune in order to understand the assessment of appropriate injunctive relief stage in the procedure. The company will appeals against reasonable in light of this decision. The likelihood of an unfavorable outcome has been assessed by externallegal advisors as possible. There is no way to determine the extent of potential

liabilities with respect to this order.

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h) Validity prepaid plan. Vivo, in conjunction with other wireless telecommunications carriers, are defendants in several lawsuits filed by prosecutors and consumer associations to contest the imposition of terms for use of prepaid minutes. The plaintiffs allege that the prepaid minutes must not expire after specific period. Conflicting decisions were handed down by courts on the matter. Although we believe that our criteria for the imposition of the deadline to comply with the standards of ANATEL, the likelihood of an unfavorable outcome has been assessed by their legal advisors as possible, except for collective action against Telemig, for which the probability of an unfavorable outcome in relation to this claim is considered remote, also based on the opinion of our legal advisors.

ANATEL

i) At March 31, 2012, the Company and its subsidiaries are involved in administrative proceedings filed based on alleged non-compliance with the obligations established in industry regulations, as well as legal claims which discuss the sanctions by Anatel at administrative level, rating the risk of loss as possible for R\$985,211 being R\$984,267 regarding the rating of administrative proceedings and R\$944 regarding the assessment of legal claims). In this value, we compute the amount of R\$84,868, an estimated value for PADO which is about systemic disruptions received by the Company in March 2012.

*Regulatory proceedings:*

a) Administrative 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 radio frequencies, 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 as well as revenue from interconnection services, which is not provided for by clause 1.7 of the referred to Authorization Terms.

For 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, Vivo filed administrative proceedings contesting these charges, based on ANATEL's position.

According to its legal advisors' opinion, chances of success in these processes are possible.

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### b) Administrative Proceeding No. 08012.008501/2007-91

It is a proceeding filed in the ambit of the Brazilian System Defending Competition (“SBDC”) by Global Village Telecom Ltda (“GVT”), Intelig Telecomunicações Ltda, (“Intelig”), Transit do Brasil Ltda, and Easytone Telecomunicações Ltda, on August 6, 2007 against Claro S.A. (“Claro”), Tim

Brasil Serviços e Telecomunicações S.A. (“TIM”), TNL SCS S.A. (“Oi”) and Vivo, for supposed trust and price squeeze practices, with the objective of increasing VU-M tariff, thus increasing the costs of competitors. Due to the proceeding filed on August 21, 2008, the Economic Right Department (“SDE”) started an administrative proceeding against the defendants in order to evaluate whether the practices adopted would fit into (i) items I, III and IV, article 20 and items V, article 21 and (ii) items I, III and IV, article 20 and items I and V, all of Law No. 8,884/94, to wit trust and price squeeze.

On March 25, 2010, SDE issued a Technical Note which: (i) dismissed the accusation of trust against all the defendants, recommending filing of such accusation, (ii) suggested excluding Oi from the group of defendants in the investigation of price squeeze for considering that its economic group would be responsible for paying VU-M and for not existing evidence of recurrent practices of prices below VU-M; (iii) recommended condemning Vivo, TIM and Claro, based on article 20, items I, III and IV, and article 21, item V, all of Law No. 8,884/94, for the increase in costs of competitors (price squeeze).

The proceeding is pending judgment by Administrative Council for Economic Defense “CADE”.

The Company’s legal advisors consider that Administrative Proceeding No. 08012.008501/2007-91 involves possible unfavorable outcome, therefore no related provision has been set up. If CADE hands down a proceeding against defendants only for price squeeze, fines imposed for similar cases have ranged from 1% to 2% of annual gross billing. However, in the remote case that CADE accepts the hypothesis of trust, initially dismissed by SDE, fines

have ranged from 20% to 30% of the defendant's gross billing for the year before that in which the proceeding was filed (in the case of Vivo: 2007), excluding taxes, but the entity's trust leading position and practice recurrent adoption may be considered aggravating elements.

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**19.4 Guarantees**

At March 31, 2012, the Company and its subsidiaries granted guarantees for tax, civil and labor proceedings, as under:

|                      | <b>Property<br/>and<br/>equipment</b> | <b>Company<br/>Escrow<br/>deposits</b> | <b>Letter<br/>bond</b> | <b>Property<br/>and<br/>equipment</b> | <b>Consolidated<br/>Escrow<br/>deposits</b> | <b>Letter<br/>bond</b> |
|----------------------|---------------------------------------|--|------------------------|---------------------------------------|---|------------------------|
| Civil, labor and tax | 19,985                                | 2,892,682                              | 460,818                | 83,636                                | 3,681,367                                   | 1,747,526              |
| <b>Total</b>         | <b>19,985</b>                         | <b>2,892,682</b>                       | <b>460,818</b>         | <b>83,636</b>                         | <b>3,681,367</b>                            | <b>1,747,526</b>       |

**20. Deferred revenues**

|                        | Company  |          | Consolidated |          |
|------------------------|----------|----------|--------------|----------|
|                        | Mar/2012 | Dec/2011 | Mar/2012     | Dec/2011 |
| Activation revenue (a) | 66,947   | 67,672   | 69,113       | 67,672   |
| Payphone cards         | 8,185    | 15,783   | 8,185        | 15,783   |
| Services and goods (b) | -        | -        | 616,623      | 583,751  |
| Government grants (d)  | 44       | 44       | 8,325        | 8,322    |

Consolidated

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|                         |        |        |         |         |
|-------------------------|--------|--------|---------|---------|
| Loyalty program (e)     | -      | -      | 76,121  | 68,821  |
| Other                   | 2,100  | 1,457  | 14,743  | 16,919  |
| Total current           | 77,276 | 84,956 | 793,110 | 761,268 |
| Activation revenue (a)  | 36,626 | 30,792 | 36,626  | 30,792  |
| Services and goods (b)  | -      | -      | 45,766  | 48,095  |
| Equipment donations (c) | -      | -      | 20,991  | 22,638  |
| Government grants (d)   | 320    | 331    | 43,186  | 44,880  |
| Other                   | 7,357  | 7,493  | 9,522   | 9,861   |
| Total non-current       | 44,303 | 38,616 | 156,091 | 156,266 |

a) Refer to the deferral of fee revenue recognized in income over the estimated period of duration of the customer plant.

b) It refers to the balances of agreements of prepaid services revenue and multi-element operations, which are recognized income to the extent that services are provided to clients.

c) It refers to the balances of network equipment donations from suppliers, which are amortized by the useful life of this equipment.

d) It refers to government grant obtained by Vivo deriving from funds raised with BNDES in a specific credit line (PSI Program), 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.

e) It refers to the fidelity points program that Vivo maintains, which allows customers to accumulate points when paying their bills referring to use of services offered. The accumulated points may be exchange 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 dividing the amount of discount granted by the number of points necessary for the redemption based on the points program. The fair value of the accumulated balance of points generated is deferred and recognized as revenue upon redemption of points.



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**21. Other Liabilities**

|  | Company  |          | Consolidated |          |
|--|----------|----------|--------------|----------|
|  | Mar/2012 | Dec/2011 | Mar/2012     | Dec/2011 |
| Consignments on behalf of third parties    | 62,931   | 155,503  | 157,896      | 252,807  |
| Amounts to be refunded to subscribers      | 58,138   | 53,882   | 54,028       | 59,265   |
| Finance Lease (a)                          | 11,669   | 11,669   | 11,669       | 11,669   |
| Liabilities to related parties (note 31)   | 109,454  | 138,900  | 43,017       | 66,490   |
| Concession renewal fee (note 1.b.1)        | 24,755   | -        | 24,755       | -        |
| Other                                      | 14,568   | 14,654   | 30,436       | 32,087   |
| Current                                    | 281,515  | 374,608  | 321,801      | 422,318  |
| Finance Lease (a)                          | 6,081    | 9,398    | 6,081        | 9,398    |
| Liabilities to related parties (note 31)   | 3,508    | 5,119    | 3,530        | 4,976    |
| Payroll and related accruals               | 16,543   | 15,160   | 16,543       | 15,160   |
| Mutual assumptions of debt and installment | -        | -        | 21,051       | 21,587   |
| Other                                      | 15,797   | 15,262   | 17,677       | 17,137   |
| Non current                                | 41,929   | 44,939   | 64,882       | 68,258   |



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Three-months period ended March 31, 2012

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(a) The Company has finance lease contracts for the use of IT equipment.

|  | Mar/2012 | Dec/2011 |
|--|----------|----------|
| Future payments of the gross finance lease | 19,523   | 23,920   |
| Unrealized financial expense               | (1,773)  | (2,853)  |
| Present value of minimum payments due      | 17,750   | 21,067   |
| Current                                    | 11,669   | 11,669   |
| Noncurrent                                 | 6,081    | 9,398    |

Maturity schedule:

|   | Year | Gross investment | Present value |
|---|------|------------------|---------------|
| Maturing within one year                          |      | 11,669           | 11,669        |
| Maturing more than one year but within five years |      | 7,854            | 6,081         |
| Total   |      | 19,523           | 17,750        |

There are neither unsecured residual values that produce benefits to the lessor nor contingent payments recognized as revenues during three months period ended in March 31, 2012.

Commitments and guarantees*Rentals*

Consolidated

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The Company rents equipment and facilities and as well as the subsidiary Vivo have undertaken commitments with lessors of several stores and sites where the radio-base stations (ERB's) are located through several operating agreements maturing on different dates. The monthly rental payments are of an equal amount for the period of the contract in the amounts of R\$3,814,758 and R\$8,071,538 Company and Consolidated, respectively.

Rental commitments mainly refer to facilities where future minimum payments under leases with remaining non-cancellable terms in excess of one year are as follows:

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**Telefônica Brasil S.A.**

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|                      | <b>Year</b> | <b>Company</b> | <b>Consolidated</b> |
|----------------------|-------------|----------------|---------------------|
| Up to one year       |             | 386,303        | 818,711             |
| One to five years    |             | 2,662,583      | 4,824,961           |
| More than five years |             | 1,765,872      | 2,427,866           |
| Total                |             | 4,814,758      | 8,071,538           |

**22. Shareholders' equity**a) Capital

Paid-in capital as of March 31, 2012 and December 31, 2011 amounts to R\$37,798,110. Subscribed and paid-in capital is represented by shares without par value, as follows:

|                         | Mar/2012      | Dec/2011      |
|-------------------------|---------------|---------------|
| Total Capital in shares |               |               |
| Common shares           | 381,587,111   | 381,587,111   |
| Preferred shares        | 744,014,819   | 744,014,819   |
| Total                   | 1,125,601,930 | 1,125,601,930 |
| Treasury shares         |               |               |
| Common shares           | (243,240)     | (239,740)     |
| Preferred shares        | (1,501,246)   | (1,477,546)   |

Consolidated

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|   |               |               |
|---|---------------|---------------|
| Total                                   | (1,744,486)   | (1,717,286)   |
| Outstanding shares                      |               |               |
| Common shares                           | 381,343,871   | 381,347,371   |
| Preferred shares                        | 742,513,573   | 742,537,273   |
| Total                                   | 1,123,857,444 | 1,123,884,644 |
| Book value per outstanding share in R\$ | 39.41         | 38.55         |

According to its bylaws, the Company is authorized to increase its capital up to the limit of 1,350,000,000 (one billion three hundred and fifty million) shares, common or preferred. The capital increase and consequent issue of new shares are to be approved by the Board of Directors, with observance of the authorized capital limit.

However, Brazilian Corporation Law – Law No. 6,404/76; article 166; IV establishes that capital may be increased through a general shareholders' meeting resolution held to decide about charter amendment, if statutory share capital limit has been reached.

Capital increases do not necessarily have to observe the proportion between the numbers of shares of each type. However, the number of preferred shares, nonvoting or with restricted voting, must not exceed 2/3 of the total shares issued.

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Preferred shares are nonvoting, but have priority in the reimbursement of capital, without premium, and are entitled to dividends 10% higher than those paid on common shares, as per article 7 of the Company's bylaws and clause II, paragraph 1, article 17, of Law No. 6,404/76.

In April 2011, there was a capital increase of R\$31,222,630 resulting from merger of 100% of shares of Vivo Part. into the Company, approved by the general shareholders' meeting of April 27, 2011 (see Note 3) corresponding to 619,364,658 (six hundred and nineteen million, three hundred and sixty-four thousand and six hundred and fifty-eight) shares of which 212,767,241 (two hundred and twelve million, seven hundred and sixty-seven thousand, two hundred and forty-one) are common shares and 406,597,417 (four hundred and six million, five hundred and ninety-seven thousand, four hundred and seventeen) are preferred shares.

b) Capital reserves

*Share Premium*

This reserve represents the amount exceeding book value of the shares arising from the issuance or capitalization on the date of issue.

*Other Capital Reserves*

Due to the merger of the holdings: TBS Celular Participações Ltda, Portelcom Participações S.A. and PTelecom Brasil S.A. into Vivo; the Company registered the amount of R\$47,723 on this caption, which

can be used as future capital increase.

**Telefônica Brasil S.A.**

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Three-months period ended March 31, 2012

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c) Treasury shares

These correspond to the Company's treasury shares which resulted from: i) the merger with TDBH occurred in 2006, ii) the merger with Vivo Part. occurred in 2011, iii) the buyback common and extraordinary share program, which the amount at March 31, 2012 was R\$62,982, which average cost was R\$43.82 for common shares and R\$46.78 for preferred shares, corresponding to 32,500 common shares and 1,316,000 preferred shares. At March 31, 2012, the market value of treasury shares was R\$97,206.

*Buyback Common and Preferred Shares of Telefônica Brasil S.A.*

On November 7, 2011, the Company informed its shareholders and the market that the members of the Company's Board of Directors approved the acquisition of common and preferred shares issued by the own company, without capital reduction, for subsequent cancellation, disposal or maintenance in treasury for the purpose of increasing shareholder value.

The repurchase will be made through the use of part of the existing capital reserve as of June 30, 2011, except for the reserves referred in Article 7 subsection (a) to (d) of CVM Instruction Nr. 10/80.

This repurchase will begin from the deliberation date of the Board of Directors, remaining in force until November 6, 2012, being the acquisitions carried out in BM&FBOVESPA at market prices and is responsibility of Management to decide the moment and quantity of shares to be acquired, whether in a

single operation, whether in a series of operations, as well as to define the parameters for carrying out the repurchase, within legal limits, until a maximum of 2,912,734 common shares and 25,207,477 preferred shares.

d) Revenue reserves

*Legal reserve*

The legal reserve is set up by allocation of 5% of the net profit for the year, up to the limit of 20% of the paid-up capital stock. Legal reserve may only be used to increase capital or to offset accumulated losses.

e) Goodwill reserve

This represents the tax benefit generated by the merger of Telefonica Data do Brasil which will be capitalized on an annual basis on behalf of the controlling shareholder as the tax credit becomes realized, according to CVM Instruction No. 319/99.

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f) Dividends – Remaining balance – retained earnings as of December 31, 2010

On March 18, 2011, the Ordinary General Shareholders' Meeting approved the allocation of additional proposed dividends referring to the remaining profit balance of 2010 and expired dividends and interest on shareholders' equity of 2010, in the amount of R\$1,694,099, provided for in the profit allocation proposal to common and preferred shareholders included in the Company's records by the end of March 18, 2011.

As of May 20, 2011, a payment of the first installment was made in the amount of R\$1,429,300. The payment of the remaining installment in the amount of R\$264,799, began on November 3, 2011.

g) Interim dividends – fiscal year 2011

On September 13, 2011, the Board of Directors approved the payment of interim dividends in the amount of R\$382,400, based on profit recorded in the balance sheet as of June 30, 2011, to holders of common and preferred shares included in the Company's records by the end of September 30, 2011. Payment of such interim dividends began on November 3, 2011.

h) Interest on shareholders' equity – fiscal year 2011

In September 13, 2011, the Board of Directors approved the credit of interest on shareholders' equity for the fiscal year 2011, in the amount of R\$1,250,000, subject to 15% withholding income tax, resulting in the

net amount of R\$1,062,500 to holders of common and preferred shares included in the Company's records by the end of September 30, 2011. Payment of interest on shareholders' equity began on November 3, 2011.

On December 12, 2011, the Board of Directors approved the credit of interest on shareholders' equity for the fiscal year 2011, in the amount of R\$617,000, subject to 15% withholding income tax, resulting in the net amount of R\$524,450 to the holders of common and preferred shares included in the Company's records by the end of December 29, 2011. The payment of interest on shareholders equity began on May 2, 2012.

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i) Dividends – Remaining balance of retained earnings results of December 31, 2011 –

The balance of unallocated net income for the year at December 31, 2011, in the amount of R\$1,888,152, plus dividends and interest on shareholder's equity prescribed in 2011 in the amount of R\$107,874 and minus other comprehensive income in the amount of R\$(42,997), totaling R\$1,953,029, were classified as additional proposed dividends in shareholders' equity, according to Management's proposal distribution of net income for the year, to be submitted for approval of the General Ordinary Shareholders' Meeting on April 11, 2012 (note 36).

**23. Net operating revenue**

|                             | Company   |           | Consolidated |           |
|-----------------------------|-----------|-----------|--------------|-----------|
|                             | Mar/2012  | Mar/2011  | Mar/2012     | Mar/2011  |
| Telephone service           | 3,074,478 | 3,905,246 | 6,618,760    | 3,917,958 |
| Network usage               | 219,946   | 131,658   | 1,145,082    | 131,658   |
| SVAs data and mobile        | 1,295,852 | 1,221,430 | 3,392,045    | 1,344,303 |
| Cable TV services           | -         | -         | 214,095      | 158,303   |
| Sale of goods and equipment | -         | -         | 571,922      | 28,840    |
| Other services              | 190,697   | 146,496   | 286,256      | 224,390   |
| Gross operating revenue     | 4,780,973 | 5,404,830 | 12,228,160   | 5,805,452 |

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|                       |           |             |             |             |
|-----------------------|-----------|-------------|-------------|-------------|
| ICMS                  | (933,219) | (1,165,288) | (2,453,247) | (1,198,081) |
| PIS and COFINS        | (171,701) | (194,008)   | (499,797)   | (215,983)   |
| ISS                   | (5,673)   | (6,065)     | (11,389)    | (9,827)     |
| Deductions            | (406,583) | (349,822)   | (949,397)   | (406,866)   |
| Net operating revenue | 3,263,797 | 3,689,647   | 8,314,330   | 3,974,695   |

**Telefônica Brasil S.A.**

Notes to the quarterly information

Three-months period ended March 31, 2012

(In thousands of reais)

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**24. Costs of goods and services**

|                               | Company     |             | Consolidated |             |
|-------------------------------|-------------|-------------|--------------|-------------|
|                               | Mar/2012    | Mar/2011    | Mar/2012     | Mar/2011    |
| Depreciation and amortization | (519,635)   | (423,682)   | (999,664)    | (472,002)   |
| Personnel                     | (81,382)    | (65,057)    | (139,630)    | (70,361)    |
| Interconnection               | (850,684)   | (1,038,475) | (1,068,751)  | (1,114,227) |
| Third-party services          | (404,247)   | (416,700)   | (760,169)    | (518,235)   |
| Rental / insurance / condos   | (86,684)    | (93,292)    | (296,801)    | (104,826)   |
| Taxes                         | (49,794)    | (59,260)    | (488,024)    | (61,782)    |
| Concession fee (note 1.b.1)   | (24,755)    | (25,643)    | (24,755)     | (25,643)    |
| Other                         | (5,003)     | (2,269)     | (32,327)     | (5,309)     |
| Total costs of services       | (2,022,184) | (2,124,378) | (3,810,121)  | (2,372,385) |
| Costs of goods and services   | (1,602)     | (4,550)     | (424,019)    | (31,624)    |
| Total                         | (2,023,786) | (2,128,928) | (4,234,140)  | (2,404,009) |

**25. Selling expenses**

|   | Company   |           | Consolidated |           |
|---|-----------|-----------|--------------|-----------|
|   | Mar/2012  | Mar/2011  | Mar/2012     | Mar/2011  |
| Depreciation and amortization                             | (117,846) | (34,564)  | (224,657)    | (34,601)  |
| Personnel   | (146,434) | (121,074) | (376,769)    | (122,781) |
| Third-party services                                      | (429,184) | (451,812) | (1,047,879)  | (481,131) |
| Allowance for reduction of the recoverable value (note 5) | (77,944)  | (73,834)  | (181,860)    | (84,962)  |
| Rental / insurance / condos                               | (1,520)   | (2,565)   | (26,050)     | (2,656)   |
| Advertising and publicity                                 | (45,798)  | (48,377)  | (216,133)    | (45,151)  |

Consolidated

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|                            |           |           |             |           |
|----------------------------|-----------|-----------|-------------|-----------|
| Donations and sponsorships | -         | -         | (74,539)    |           |
| Others                     | (11,068)  | (3,381)   | (27,104)    | (3,906)   |
| Total                      | (829,794) | (735,607) | (2,174,991) | (775,188) |

**26. General and administrative expenses**

|                               | Company   |           | Consolidated |           |
|-------------------------------|-----------|-----------|--------------|-----------|
|                               | Mar/2012  | Mar/2011  | Mar/2012     | Mar/2011  |
| Depreciation and amortization | (15,147)  | (17,408)  | (93,971)     | (31,905)  |
| Personnel                     | (90,338)  | (60,711)  | (197,808)    | (62,073)  |
| Third-party services          | (82,743)  | (49,351)  | (206,924)    | (60,843)  |
| Rental / insurance / condos   | (7,212)   | (5,093)   | (43,538)     | (6,452)   |
| Others                        | (4,136)   | (4,657)   | (16,922)     | (8,986)   |
| Total                         | (199,576) | (137,220) | (559,163)    | (170,259) |

**Telefônica Brasil S.A.**

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**27. Other operating income (expenses), net**

|   | Company  |          | Consolidated |          |
|---|----------|----------|--------------|----------|
|   | Mar/2012 | Mar/2011 | Mar/2012     | Mar/2011 |
| Fines and expenses recovered                          | 41,131   | 53,112   | 94,342       | 52,872   |
| Donation and sponsorships                             | (2,492)  | (4,592)  | (2,492)      | (4,592)  |
| Provision for civil, labor and tax contingencies, net | (61,549) | (36,267) | (102,752)    | (37,368) |
| Net profit on disposal of assets (a)                  | (5,195)  | 9,047    | 208,107      | 8,620    |
| Administrative technical services                     | 8,784    | 10,824   | 7,784        | 9,350    |
| Other expenses  | 6,619    | 2,301    | (21,981)     | (1,333)  |
| Total   | (12,702) | 34,425   | 183,008      | 27,549   |
| Other operating income                                | 64,974   | 109,286  | 380,961      | 108,468  |
| Other operating expenses                              | (77,676) | (74,861) | (197,953)    | (80,919) |
| Total   | (12,702) | 34,425   | 183,008      | 27,549   |

- (a) During three months period ended in March 31, 2012, subsidiary Vivo carried out the disposal of 800 of non-strategic towers, transferring their management and maintenance to a third-party company specialized in providing these services for the amount of R\$277,180 equivalent income of 720 towers in the amount of R\$249,256 net of book value (R\$216,517 net of residual value).



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**28. Financial expenses, net**

|   | Company   |          | Consolidated |          |
|---|-----------|----------|--------------|----------|
|   | Mar/2012  | Mar/2011 | Mar/2012     | Mar/2011 |
| Financial income                        | 155,561   | 96,382   | 336,350      | 123,483  |
| Income from short-term investments      | 22,788    | 35,892   | 76,035       | 45,882   |
| Gains on derivative transactions        | 28,320    | 1,474    | 40,672       | 1,474    |
| Interest receivable                     | 30,490    | 12,585   | 42,804       | 13,012   |
| Monetary/exchange variations receivable | 65,501    | 41,982   | 155,275      | 42,314   |
| Other financial income                  | 8,462     | 4,449    | 21,564       | 20,801   |
| Financial expenses                      | (190,809) | (93,722) | (399,419)    | (95,591) |
| Interest payable                        | (96,338)  | (46,936) | (165,605)    | (47,648) |
| Losses on derivative transactions       | (35,697)  | (23,656) | (72,272)     | (23,656) |
| Monetary/exchange variations payable    | (41,999)  | (14,412) | (105,101)    | (15,262) |
| Others financial expenses               | (16,775)  | (8,718)  | (56,441)     | (9,025)  |
| Total                                   | (35,248)  | 2,660    | (63,069)     | 27,892   |

**29. Income and social contribution taxes**

The Company and its subsidiaries recognize income tax and social contribution monthly on the accrual basis and pay the taxes on an estimated basis, in accordance with the trial balance for suspension or reduction. The taxes calculated on income until the month of the financial statements are recorded in liabilities or assets, as applicable.



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Reconciliation of reported income tax expense and combined statutory tax rates

Reconciliation of the reported tax charges and the amounts calculated by applying 34% (income tax of 25% and social contribution tax of 9%) in March 31, 2012 and 2011 is shown in the table below:

|   | Company   |           | Consolidated |           |
|---|-----------|-----------|--------------|-----------|
|   | Mar/2012  | Mar/2011  | Mar/2012     | Mar/2011  |
| Income before taxes   | 991,155   | 675,366   | 1,465,975    | 681,442   |
| <u>Income and social contribution taxes</u>                       |           |           |              |           |
| Income and social contribution taxes expenses – at 34% rate       | (336,993) | (229,624) | (498,432)    | (231,690) |
| Permanent differences   |           |           |              |           |
| Equity pickup   | 281,678   | (16,868)  | -            | 259       |
| Prescribed dividends  |           |           |              |           |
| Temporary differences of subsidiaries                             | -         | -         | (22,514)     | (18,489)  |
| Non-deductible expenses, gifts, incentives and dividends received | (918)     | (11,718)  | (9,750)      | (14,375)  |
| Other additions (exclusions)                                      | 22,528    | 1,181     | 21,299       | 1,190     |
| Total general (IRPJ + CSLL)                                       | (33,705)  | (257,029) | (509,397)    | (263,105) |
| Effective rate  | 3,4%      | 38,1%     | 34,7%        | 38,6%     |
| Current income and social contribution taxes                      | 12,930    | (229,997) | (298,331)    | (235,804) |
| Deferred income and social contribution taxes                     | (46,635)  | (27,032)  | (211,066)    | (27,301)  |

The components of deferred income and social contribution tax assets and liabilities on temporary differences are shown in note 7.2.

### 30. Earnings per share

Basic and diluted earnings per share were calculated by dividing income attributed to the Company's shareholders by the weighted average of the number of outstanding common and preferred shares for the year. No transactions were carried out that could have potential shares issued through the date of issuance of the consolidated financial statements; therefore, there are no adjustments of diluting effects inherent to the potential issue of shares.

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The table below shows, the calculation of earnings per share as of March 2012 and 2011:

|   | Mar/2012  | Mar/2011 |
|---|-----------|----------|
| Net income attributable to the shareholders:                  | 957,450   | 418,337  |
| Common shares   | 304,745   | 130,727  |
| Preferred shares  | 652,705   | 287,610  |
| Numbers of shares:  | 1,123,857 | 505,841  |
| Weighted average common shares outstanding during the year    | 381,344   | 168,609  |
| Weighted average preferred shares outstanding during the year | 742,513   | 337,232  |
| Basic and diluted earnings per share:                         |           |          |
| Common shares   | 0.80      | 0.78     |
| Preferred shares  | 0.88      | 0.85     |

**31. Transactions with related parties**

The main balances with related parties consolidated are as follows bellow:

| Company                                 | Nature of the transaction | 03/31/2012     |                    |                     |                         |
|---|---------------------------|----------------|--------------------|---------------------|-------------------------|
|   |                           | Current Assets | Non-Current Assets | Current Liabilities | Non-Current Liabilities |
| Atento Brasil S.A.                      | a) / c) / e) / f)         | 12.510         | -                  | 209.681             | 338                     |
| SP Telecomunicações Participações Ltda. | d) / f)                   | 7              | -                  | 126.283             | -                       |
| Consolidated                            |                           |                |                    |                     | 152                     |

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|  |                |        |        |         |       |
|--|----------------|--------|--------|---------|-------|
| Telefonica de Espana S.A.                                | a) / e)        | 1.991  | -      | 833     | -     |
| Telefónica del Peru                                      | b)             | 4.637  | -      | 47      | 702   |
| Telefónica Internacional S.A.                            | b) / d) / f)   | 135    | 16.907 | 203.468 | -     |
| Telefónica International Wholesale Services Brasil Ltda. | a) / c) / f)   | 1.959  | 22     | 35.239  | 259   |
| Telefónica International Wholesale Services Espanha      | a) / e) / f)   | 7.069  | -      | 2.862   | -     |
|  | a) / c) / e) / |        |        |         |       |
| Telefónica Móviles Espanha S.A.                          | f)             | 5.270  | -      | 6.063   | -     |
| Telefónica S.A.  | d) / f)        | 2.127  | -      | 170.187 | -     |
|  | b) / c) / e) / |        |        |         |       |
| Telefônica Serviços Empresariais do Brasil Ltda.         | f)             | 17.275 | 968    | 13.636  | 1.982 |
| Telefónica Transportes e Logística Ltda.                 | c) / f)        | 323    | 8      | 29.821  | 144   |
| Terra Networks S.A.                                      | a) / b) / e)   | 9.537  | 9      | 838     | -     |
| Telefônica Engenharia de Segurança do Brasil Ltda.       | b) / c) / f)   | 2.126  | 293    | 4.629   | -     |
|  | a) / c) / e) / |        |        |         |       |
| Others   | f)             | 24.513 | 8      | 23.567  | 105   |
| Total  |                | 89.479 | 18.215 | 827.154 | 3.530 |

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| Company  | Nature of the transaction | 12/31/2011     |                    |                     |                         | 03/31/2011 |                    |
|--|---------------------------|----------------|--------------------|---------------------|-------------------------|------------|--------------------|
|  |                           | Current Assets | Non-Current Assets | Current Liabilities | Non-Current Liabilities | Revenues   | Costs and Expenses |
| Atento Brasil S. A.                                      | a) / c) / e) / f)         | 14,720         | -                  | 186,692             | 338                     | 6,314      | 180,476            |
| SPTelecomunicações Participações Ltda.                   | d) / f)                   | 4              | -                  | 126,283             | -                       | -          | 2,161              |
| Telefónica de España S. A.                               | a) / e)                   | 5,320          | -                  | 3,997               | -                       | -          | -                  |
| Telefónica Del Peru                                      | b)                        | 10,663         | -                  | 61                  | 700                     | 301        | 17                 |
| Telefónica Internacional S. A.                           | b) / d) / f)              | 221            | 17,022             | 201,856             | -                       | -          | 616                |
| Telefônica Internacional Wholesale Services Brasil Ltda. | a) / c) / f)              | 2,131          | 22                 | 29,080              | 505                     | 946        | 16,999             |
| Telefônica International Wholesale Services Espanha      | a) / e) / f)              | 6,057          | -                  | 3,402               | -                       | -          | 3,149              |
| Telefónica Mviles Espana S.A.                            | a) / c) / e) / f)         | 5,424          | -                  | 5,984               | -                       | -          | -                  |
| Telefónica S. A.   | d) / f)                   | 482            | 1,591              | 172,229             | -                       | -          | 175                |
| Telefônica Serviços Empresariais do Brasil Ltda.         | b) / c) / e) / f)         | 16,690         | 932                | 10,715              | 2,976                   | 616        | 25,435             |
| Telefônica Transportes e Logística Ltda.                 | c) / f)                   | 163            | -                  | 36,610              | 144                     | -          | -                  |
| Terra Networks Brasil S. A.                              | a) / b) / e)              | 9,505          | 16                 | 1,100               | -                       | 3,330      | 1,007              |
| Grupo Vivo   | e) / f)                   | -              | -                  | -                   | -                       | 171,828    | 647,891            |
| Consolidated   |                           |                |                    |                     |                         |            | 154                |

|        |                      |        |        |         |       |         |         |
|--------|----------------------|--------|--------|---------|-------|---------|---------|
| Others | a) / c) / e) /<br>f) | 26,805 | 631    | 32,206  | 313   | 6,302   | 7,800   |
| Total  |                      | 98,185 | 20,214 | 810,215 | 4,976 | 189,637 | 885,726 |

a) Trade accounts receivable include receivables for fixed and mobile telecommunication services including Terra Networks Brasil S.A., Telefonica de Espanha S.A., Telefonica International Wholesale Services Espanha, Atento Brasil S.A. and Telefónica Moviles Espana S.A particularly for fixed and mobile long-distance calls, communication through local mobile, interconnection and Telefonica Internacional Wholesale Services Brasil Ltda., due to the contract of rendering services of rights of use of undersea fiber optic, and other group companies.

b) Other intercompany receivables in Current Assets and Non-current Assets include mainly credits with Telefónica Internacional S.A., Telefonica del Peru, Terra Networks Brasil S.A., Telefônica Serviços Empresariais do Brasil Ltda. Telefonica Engenharia de Segurança do Brasil Ltda, Telefonica S.A. corresponding to services rendered, advisory fees, expenses with salaries and other expenses paid by the Company to be refunded by the corresponding companies.

c) Trade accounts payable include services rendered particularly by Atento Brasil S.A. for call center management services, tele-services centers and sales promoters; Telefônica Internacional Wholesale Services Brasil Ltda, for provision of transmission infrastructure to various international data circuits and international roaming by Telefonica Moviles Espana S.A. We also highlight the rendering of administrative management services in the accounting, finance, human resources, equity and IT functions payable to Telefônica Serviços Empresariais do Brasil Ltda., Telefônica Transportes e Logística Ltda. and other group companies.

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d) Other intercompany payables in Current and Non-current Liabilities mainly include payables for technical support and management services and dividends and interest on shareholder's equity to Telefónica Internacional S.A., SP Telecomunicações Participações Ltda and Telefónica S.A.

e) Revenues are mainly related to billing speedy services and interregional long-distance for fixed services with Terra Networks Brasil S.A., Atento Brasil S.A. and Telefônica Serviços Empresariais do Brasil Ltda. and to network infrastructure leased to Atento Brasil S.A. and services from calls mainly for long distance calls with Telefonica de Espanha S.A. Telefónica Internacional Wholesale Services Espanha, Telefónica Mviles Espana S.A. and other group companies.

f) The balance of costs and expenses mainly refers to international roaming call provided by Telefónica Mviles Espana S.A., center management services rendered by Atento Brasil S.A., international transmission infrastructure for various data circuits provided by Telefonica Internacional Wholesale Services Brasil Ltda. and Telefónica Internacional Wholesale Services Espanha, management expenses, technical assistance to Telefónica Internacional S.A., SP Telecomunicações Participações Ltda. and Telefónica S.A. and administrative management services regarding the accounting, financial, human resources and IT areas payable to Telefônica Serviços Empresariais do Brasil Ltda., Telefônica Transportes e Logística Ltda. and other group companies.

At an Extraordinary General Meeting held on April 27<sup>th</sup>, 2011 was approved the replacement operation and incorporation of shares 100% of the total capital of Vivo Participações S.A., according to corporate restructuring mentioned in the Material Fact dated December 27, 2010 and in terms of the Merger Protocol dated March 25, 2011.

*Board of Director's Compensation*

Consolidated

The amount paid by the Company to the Board of Directors in March 2012 was approximately R\$6,919 (R\$3,316 in March 2011). Of these amounts, R\$3,860 (R\$2,384 in March 2011) corresponds to salaries and R\$1,182 (R\$932 in March 2011) to variable compensation.

During the three months period ended in March 31, 2012, our Directors and Officers did not receive any benefit pension, retirement pension or other similar plans.

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**32. COMPENSATION PLANS BASED ON SHARES**

The Company and its subsidiaries recorded the following personnel expenses related to compensation plans based on shares in the quarter ended March 31, 2012 and 2011:

| Plans | Mar/2012 | Mar/2011 |
|-------|----------|----------|
| PSP   | 7,743    | 2,525    |
| PIP   | 2,133    | -        |
| GESP  | 2,500    | 330      |
| Total | 12,376   | 2,875    |

**33. Insurance**

The Company and its subsidiaries' policies as well as those of the Telefónica Group include the maintenance of insurance coverage for all assets and liabilities involving significant amounts and high risks based on management's judgment and following Telefónica S.A.'s corporate program guidelines.

The assets, liabilities or interests covered by insurance and their respective amounts are as follows:

| <b>Type</b>                              | <b>Insurance Coverage</b> |
|--|---------------------------|
| Operational risks (with loss of profits) | R\$1,659,430              |
| Optional civil responsibility – general  | R\$31,740                 |
| ANATEL guarantee insurance               | R\$24,655                 |

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**34. Post-retirement benefit plans**

The plans sponsored by the Company and its subsidiaries related benefits types are as follows:

| <b>Plan</b> | <b>Type <sup>(1)</sup></b> | <b>Entity</b>                         | <b>Sponsor</b>   |
|-------------|----------------------------|---------------------------------------|--|
| PBS-A       | BD                         | Sistel                                | Telefônica Brasil and Vivo in conjunction with the other companies resulting from the breakup of Telebras.       |
| PAMA/PCE    | Health care plan           | Sistel                                | Telefônica Brasil and Vivo in conjunction with the other companies resulting from the breakup of Telebras.       |
| CTB         | BD                         | Telefônica Brasil S.A.                | Telefônica Brasil  |
| PBS         | BD/Hybrid                  | VisãoPrev                             | Telefônica Brasil and Vivo   |
| VISÃO PREV  | CD/Hybrid Hybrid           | VisãoPrev<br>VisãoPrev <sup>(2)</sup> | A. Telecom, Telefônica Data, Telefônica Brasil, Vivo and VisãoPrev Companhia de Previdência Complementar<br>Vivo |

(1) BD = Defined Benefit Plan;  
 CD = Defined Contribution Plan;  
 Hybrid = Plan that offers both DB and DC-type benefits.

(2) Except plan CELPREV, managed by Sistel.

The Company and its subsidiaries, along with other companies from Telebrás System, sponsor pension plans and post employment medical benefits, as follows: i) PBS-A; ii) PAMA; iii) CTB ; iv) PBS-Telefônica,

PBS-Telesp Celular, PBS-TCO, PBS Tele Sudeste Celular and PBS Tele Leste Celular; v) Plano TCP Prev, TCO Prev e CelPrev; and vi) Benefit Plans Visão Telefônica and Visão Celular – Celular CRT, Telerj Celular, Telest Celular, Telebahia Celular and Telergipe Celular.

The Company and its subsidiaries sponsor, individually, a defined benefit retirement plan (PBS Plan), administered by Visão Prev, which covers approximately 0.14% of the Company's employees. In addition, a multiemployer plan (PBS-A) and health care plan (PAMA) are provided by the Company and its subsidiaries to retired employees and their dependents (administered by Fundação Sistel, with constituted fund and participants contributions), at shared costs. Contributions to the PBS Plans are determined based on actuarial valuations prepared by independent actuaries, in accordance with the rules in force in Brazil. The funding procedure is the capitalization method and the sponsor's contribution is a fixed percentage of payroll of employees covered by the plan, as described below:

| Plan                     | %     |
|--------------------------|-------|
| PBS Telesp               | 13.96 |
| PBS Telesp Celular       | 10.78 |
| PBS Tele Sudeste Celular | 16.67 |
| PBS Telemig Celular      | 10.36 |
| PAMA                     | 1.50  |

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For other employees of the Company and its subsidiaries, there is an individual defined contribution plans - Visão Telesp Benefit Plan and for Vivo there is an individual defined contribution plan Vivo Prev Plan, both of them being administrated by Visão Prev complementary providence company. The others Plans are funded by contributions made by the participants (employees) and by the sponsors which are credited to participants' individual accounts. Telefônica Brasil and its subsidiaries are responsible for bearing all administrative plans and maintenance expenses, including participant's death and disability risks. The contributions to those plans are equal to those of the employees, varying from 2% to 9% of the contribution salary for those participants from Telefônica Brasil and from 2% to 8% of the contribution salary for those participants from Vivo based on the percentage chosen by the participant.

Additionally, the Company supplements the retirement benefits of certain employees of the former CTB - Companhia Telefônica Brasileira.

All revenues and expenses relating to defined benefit plans and benefit plans hybrids, such as employer contributions, the current service costs, interest costs and expected return on plan assets are recognized directly in the operating results of the Company and its subsidiaries.

Gains and losses relating to defined benefit plans and benefit plans hybrids, beyond the limitations of the recoverability of surpluses for refunds or reductions in future contributions, are recognized immediately in equity, resulting in no impact on the Company's operating and its subsidiaries.

Actuarial liabilities recorded by the Company and its subsidiaries as of March 31, 2012 and December 31, 2011 are as follows:



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| Plan  | Company  |          | Consolidated |          |
|-------|----------|----------|--------------|----------|
|       | Mar/2012 | Dec/2011 | Mar/2012     | Dec/2011 |
| CTB   | 33,896   | 34,615   | 33,896       | 34,615   |
| PAMA  | 262,245  | 256,563  | 279,459      | 273,373  |
| PBS   | -        | -        | 1,443        | 905      |
| Total | 296,141  | 291,178  | 314,798      | 308,893  |

For the surplus plans, the net actuarial assets were recorded by the Company and its subsidiaries in March 31, 2012 and December 31, 2011, in the group of other assets (note 10).

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**35. Financial instruments**

The Company and its subsidiaries made a valuation of their financial assets and liabilities in relation to market values based on available information and appropriate valuation methodologies. However, the interpretation of market information, as well as the selection of methodologies, requires considerable judgment and reasonable estimates in order to produce adequate realizable values. As a result, the estimates presented do not necessarily indicate the amounts which may be realized in the current market. The use of different market approaches and/or methodologies may have a significant effect on the estimated realizable values.

The table below shows a breakdown of financial assets and liabilities as of March 31, 2012.

|                           | Fair value                                    |                          | Company Amortized cost |                              |                      |  |   | Total Book Value | Total Fair Value |
|---------------------------|---|--------------------------|------------------------|------------------------------|----------------------|--|---|------------------|------------------|
|                           | Measured at fair value through profit or loss | Hedge Available for sale | Loans and receivables  | Investments held to maturity | Level 1 Market price | Level 2 Estimated based on other market data |   |                  |                  |
| <b>Financial assets</b>   |   |                          |                        |                              |                      |  |   |                  |                  |
| <b>Current assets</b>     |   |                          |                        |                              |                      |  |   |                  |                  |
| Cash and cash equivalents | -   | -                        | -                      | 877,302                      | -                    | -  | - | 877,302          | 877,302          |

Consolidated

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|  |   |        |        |         |     |        |        |         |         |
|--|---|--------|--------|---------|-----|--------|--------|---------|---------|
| (note 5)<br>Derivatives                                      | 2 | -      | -      | -       | -   | -      | 2      | 2       | 2       |
| <b>Noncurrent assets</b>                                     |   |        |        |         |     |        |        |         |         |
| Interests in other companies                                 | - | -      | 38,004 | -       | -   | 38,004 | -      | 38,004  | 38,004  |
| Derivatives  | - | 29,067 | -      | -       | -   | -      | 29,067 | 29,067  | 29,067  |
| Amounts linked to the National Treasury Securities (note 11) | - | -      | -      | -       | 445 | -      | -      | 445     | 445     |
| <b>Total financial assets</b>                                | 2 | 29,067 | 38,004 | 877,302 | 445 | 38,004 | 29,069 | 944,820 | 944,820 |



**Financial  
assets****Current  
assets**

Cash and  
cash  
equivalents  
(note 5)  
Derivatives

|   |       |   |           |   |   |            |           |
|---|-------|---|-----------|---|---|------------|-----------|
| - | -     | - | 3,177,346 | - | - | -3,177,346 | 3,177,346 |
| 2 | 1,312 | - | -         | - | - | 1,314      | 1,314     |

**Noncurrent  
assets**

Interests in  
other  
companies  
Derivatives  
Amounts  
linked to the  
National  
Treasury  
Securities  
(note 11)

|          |   |        |   |     |        |         |         |         |
|----------|---|--------|---|-----|--------|---------|---------|---------|
| -        | - | 40,625 | - | -   | 40,625 | -       | 40,625  | 40,625  |
| -196,443 |   | -      | - | -   | -      | 196,443 | 196,443 | 196,443 |
| -        | - | -      | - | 445 | -      | -       | 445     | 445     |

**Total  
financial  
assets**

|   |         |        |           |     |        |         |           |           |
|---|---------|--------|-----------|-----|--------|---------|-----------|-----------|
| 2 | 197,755 | 40,625 | 3,177,346 | 445 | 40,625 | 197,757 | 3,416,173 | 3,416,173 |
|---|---------|--------|-----------|-----|--------|---------|-----------|-----------|

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|  | Measured<br>at fair<br>value<br>through<br>profit or<br>loss | Amortized<br>cost | Hedge          | Consolidated               |   | Total Book<br>Value | Total<br>Fair Value |
|--|--|-------------------|----------------|----------------------------|---|---------------------|---------------------|
|  |  |                   |                | Level 1<br>Market<br>price | Level 2<br>Estimated<br>based on<br>other<br>market<br>data |                     |                     |
| <b>Financial liabilities</b>           |  |                   |                |                            |   |                     |                     |
| <b><i>Current liabilities</i></b>      |  |                   |                |                            |   |                     |                     |
| Loans and financing<br>(note 17)       | 33,709   | 863,355           | -              | -                          | 33,709  | 897,064             | 897,064             |
| Debentures (note 17)                   | 5,660  | 492,904           | -              | -                          | 5,660   | 498,564             | 498,564             |
| Derivatives                            | 91   | -                 | 41,765         |                            | 41,856  | 41,856              | 41,856              |
| <b><i>Noncurrent liabilities</i></b>   |  |                   |                |                            |   |                     |                     |
| Loans and financing<br>(note 17)       | 956,357  | 2,782,019         | -              | -                          | 956,357   | 3,738,376           | 3,738,376           |
| Debentures (note 17)                   | 86,616   | 707,315           | -              | -                          | 86,616  | 793,931             | 793,931             |
| Derivatives                            | -  | -                 | 63,016         | -                          | 63,016  | 63,016              | 63,016              |
| <b>Total financial<br/>liabilities</b> | <b>1,082,433</b>   | <b>4,845,593</b>  | <b>104,781</b> | <b>-</b>                   | <b>1,187,214</b>  | <b>6,032,807</b>    | <b>6,032,807</b>    |

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**Interests in other companies**

The Company has direct and indirect interests in other companies resulting from the privatization process. These investments, measured at market value, consider the latest quotation available at March 31, 2012 and December 31, 2011.

The table below shows the composition of investments in other companies at market value as of March 31, 2012 and December 31, 2011:

|                   | % of Interest | Mar/2012 | Dec/2011 |
|-------------------|---------------|----------|----------|
| Zon Multimédia    | 0,52          | 10,046   | 9,116    |
| Other investments |               | 30,579   | 28,580   |
| Total             |               | 40,625   | 37,696   |

**Fair value hierarchy**

The Company and its subsidiaries use the following hierarchy in order to calculate and disclosure the fair value of financial instruments through the valuation technique:

Level 1: quoted prices (without adjustments) on the active markets for identical assets and liabilities;

Level 2: other techniques to which all data with material effect on the fair value recorded are directly or indirectly observable;

Level 3: techniques using data with relevant effect on the fair value recorded which are not based on data that can be observed on the market.

For the three months period ended March 31, 2012 no transfers of assessments of fair value between level 1 and level 2 nor level 3 and level 2 were made. The Company and its subsidiaries do not have financial instruments with fair value level 3 assessments.

As authorized by CPC 37, the Company and its subsidiaries did not disclose comparative information on hierarchy of fair value and liquidity disclosures.

### **Capital management**

The purpose of the Company and its subsidiaries' Capital management is to ensure that a solid credit rating is sustained before the institutions, as well as an optimum capital relationship, in order to support the Company's businesses and maximize the value to its shareholders.

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The Company and its subsidiaries manage their capital structure by making adjustments and fitting into current economy conditions. For this purpose, the Company and its subsidiaries may pay dividends, raise new loans, issue promissory notes and contract derivative operations. For the three months period ended March 31, 2012, there were no changes in the Company's objectives, policies or capital structure processes.

The Company and its subsidiaries include in its net debt structure: loans, financing, derivative operations, less cash and cash equivalents.

**Risk management policy**

The Company and its subsidiaries are exposed to several market risks as a result of its commercial operations, debts obtained to finance its activities and debt-related financial instruments.

The principal market risk factors that affect the business of the Company and its subsidiaries are detailed below:

a) *Exchange rate risk*

This risk arises from the possibility that the Company may incur losses due to exchange rate fluctuations, which would increase the financial expenses of loans denominated in foreign currency.

For the three months period ended March 31, 2012, 20.0% (19.32% as of December 31, 2011) of the financial debt was denominated in foreign currency. The Company and its subsidiaries has entered into derivative transactions (exchange rate hedge) with financial institutions to protect itself against exchange rate variation on its gross debt in foreign currency (R\$1,181,493 at March 31, 2012 and R\$1,004,207 at December 31, 2011).

In view of this, as of March 31, 2012 and December 31, 2011 the entirety of the debt was covered by asset positions on currency hedge transactions (swap for CDI).

There is also the exchange rate risk related to non-financial assets and liabilities in foreign currency, which can lead to a lower amount receivable or higher amount payable, depending on exchange rate variation in the period.

As from May 2010, hedge operations were contracted to minimize the exchange rate risk related to these non-financial assets and liabilities in foreign currency. This balance is subject to daily changes due to business dynamics, however, the Company aims to cover the net balance of these rights and obligations (US\$14,079 and €35,702 payable at March 31, 2012) to minimize the related foreign exchange risk.

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*b) Interest rate and inflation risk*

This risk arises from the possibility of the Company and its subsidiaries incurring losses to of an unfavorable change in internal interest rates, which may negatively affect financial expenses connected with part of debentures link with CDI and liability positions (exchange rate hedge and IPCA) contracted at floating interest rates (CDI).

The debt taken out from BNDES bank is indexed by the TJLP (Long Term Interest Rate quarterly set by the National Monetary Council), which was kept at 6.0% per annum since July 2009.

The risk of inflation arises from the debentures of Telemig (merged into Vivo Part. on June 1, 2010), indexed by the IPCA, which may adversely affect our financial expenses in the event of an unfavorable change in this index.

To reduce its exposition to CDI, the Company and its subsidiaries invest cash surplus of R\$3,147,326 (R\$2,862,938 at December 31, 2011), mainly in short-term financial investments (Bank Deposit Certificates) based on CDI variation. The book value of these instruments approximates market, since they are redeemable within a short term.

As of March 31, 2012, the Company and its subsidiary Vivo had financing agreements in force, containing restrictive clauses (covenants), typically applicable to such agreements, relating to cash generation, debt ratios and other restrictions. These covenants – which should be calculated semi-annually and annually could otherwise demand payment of liabilities at an earlier time – have been fully performed by the

Company and its subsidiary Vivo, and all economic and financial indexes contractually provided have been achieved.

The 1<sup>st</sup> and 4<sup>th</sup> issuance of debentures of Vivo Part., taken by the Company on August 19 and September 28, 2011, respectively, have economic and financial indexes that must be determined quarterly, as well as covenants in connection with judicial and out-of-court applications for company economic recovery, liquidation, dissolution, insolvency, voluntary bankruptcy application or adjudication of bankruptcy, payment failure and failure to comply with non-fiduciary obligations. At said date, all financial and economic indices were attained and all these covenants were met.

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*c) Liquidity risk*

Liquidity risk derives from the possibility that the Company and its subsidiary do not have sufficient resources to meet their commitments according to the different currencies and terms of execution/settlement of their rights and obligations.

The Company and its subsidiary structure the maturity dates of the non-derivative financial agreements, as shown in note 17, and their respective derivatives as shown in the payments schedule disclosed in the referred note, in such manner as not to affect its liquidity.

The control of the Company's and its subsidiary's liquidity and cash flow is monitored daily by Management, in such way as to ensure that the operating cash generation and the available lines of credit, as necessary, are sufficient to meet its schedule of commitments, not generating liquidity risks.

*d) Credit risk*

This risk arises from the possibility that the Company and its subsidiaries may incur losses due to the difficulty in receiving amounts billed to its customers and sales of handsets and pre-activated pre-paid cards to the distributor's network.

The credit risk on accounts receivable is dispersed and minimized by a strict control of the customer base. The Company and its subsidiaries constantly monitor the level of accounts receivable of post-paid plans and limit the risk of past-due accounts, interrupting access to telephone lines for past due bills. In the mobile services the customer base is predominantly, a prepaid system, which requires the prior charging and consequently entails no credit risk. Exceptions are made for telecommunication services that must be maintained for security or national defense reasons.

The credit risk in the sale of handsets and “pre-activated” prepaid cards is managed under a conservative credit policy, by means of modern management methods, including the application of “credit scoring” techniques, analysis of financial statements and information, and consultation to commercial data bases, in addition to request of guarantees.

As of March 31, 2012, the Company’s customer portfolio had no subscribers whose receivables were individually higher than 1% of the total accounts receivable from services.

The Company and its subsidiaries are also subject to credit risk arising from short-term investments, letters of guarantee received as collateral in connection with certain operations and receivables from swap transactions. The Company and its subsidiaries controls the credit limit granted to all counterparties and diversifies such exposure among top-rated financial institutions, according to credit policy of financial counter-parties in force.

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**Derivatives and Risk Management Policy**

All the Company and its subsidiaries derivative instruments have the objective of providing a hedge against the risk of variation in exchange rates arising from assets and liabilities in foreign currency and against inflation risk from its debenture indexed to IPCA (inflation rate) with shorter term. As such, any changes in risk factors generate an opposite effect on the hedged end. There are no derivative instruments for speculative purposes and liabilities in foreign exchange are hedged.

The Company and its subsidiaries have internal controls over its derivative instruments, which, according to management, are adequate to control the risks associated with each market strategy. The Company's results derived from its derivative financial instruments indicate that the risks have been adequately managed.

The Company and its subsidiaries determine the effectiveness of the derivative instruments entered into to hedge its financial liabilities upon origination and on an ongoing basis (quarterly). As of March 31, 2012, the derivative instruments taken were effective for the debts for which they are intended to provide coverage. Provided these derivatives contracts qualify as hedge accounting, the debt hedge may also be adjusted at fair value as per the rules applicable to fair value hedge. According to cash flow *hedge accounting*, the effective portion of fair value variations of derivatives designated for these hedges is recognized directly in equity. As of December 31, 2011, subsidiary Vivo had an foreign exchange swap of US\$102,573 designated as cash flow *hedge*, whose fair value accumulated variation, recognized in equity, was R\$5,703.

The Company and its subsidiaries entered into swap contracts in foreign currency at different exchange rates hedging their assets and liabilities in foreign currency.

At October 15, 2009, a swap was contracted by Vivo Part., which was indexed to the IPCA (as for assets), and to the CDI (as for liabilities), in order to cover the exposure of the cash flows of the 3<sup>rd</sup> serie of 4<sup>th</sup> issuance of debentures to the variation of the IPCA rate. Upon being contracted, this swap was recognized as a fair value hedge.

As of March 31, 2012, the Company and its subsidiaries had not had any embedded derivatives agreements.

#### Fair value of derivative financial instruments

The discounted cash flow method was used to determine the fair value of finance liabilities (when applicable) and derivative instruments considering expected settlement of liabilities or realization of assets and liabilities at the market rates prevailing at balance sheet date.

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Fair values are calculated by projecting future operating flows, using BM&FBovespa curves, and discounting to present value through market DI rates for swaps, as informed by BM&FBovespa.

The market values of exchange rate derivatives were obtained through market currency rates in force at the balance sheet date and projected market rates were obtained from currency coupon curves. The coupon for positions indexed to foreign currencies was determined using the 360-calendar-day straight-line convention; the coupon for positions indexed to CDI was determined using the 252-workday exponential convention.

The consolidated derivative financial instruments shown below are registered with CETIP. All of them are classified as swaps and do not require margin deposits.

| Descrição                   | Index | Consolidated   |           |            |           | Accumulated effect<br>Amount<br>receivable | Amount<br>payable |
|-----------------------------|-------|----------------|-----------|------------|-----------|--|-------------------|
|                             |       | Notional Value |           | Fair value |           |  |                   |
|                             |       | Mar/2012       | Dec/2011  | Mar/2012   | Dec/2011  |  |                   |
| <b>Swap Contracts</b>       |       |                |           |            |           |  |                   |
| <b>Assets</b>               |       |                |           |            |           |  |                   |
| <u>Foreign currency (a)</u> |       | 1,102,259      | 1,106,438 | 1,230,933  | 1,248,514 | 180,172                                    | -                 |
| Citibank                    | USD   | 181,230        | 187,845   | 193,208    | 199,872   | 26,459                                     | -                 |
| Votorantim                  | USD   | 10,558         | 13,434    | 10,965     | 14,028    | -  | -                 |
| Banco do Brasil             | USD   | 258,900        | 258,900   | 281,434    | 282,205   | 11,484                                     | -                 |
| Bradesco                    | USD   | 208,364        | 196,728   | 240,866    | 231,391   | 38,605                                     | -                 |
| Itaú                        | USD   | -              | 6,324     | -          | 6,371     | -  | -                 |
| JP Morgan                   | USD   | 443,207        | 443,207   | 504,460    | 514,647   | 103,624                                    | -                 |

Consolidated

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|                             |      |        |        |        |        |        |   |
|-----------------------------|------|--------|--------|--------|--------|--------|---|
| <u>Foreign currency (b)</u> |      | 89,150 | 44,098 | 89,062 | 43,059 | 2      | - |
| Bradesco                    | EUR  | 63,874 | 13,828 | 63,776 | 13,773 | -      | - |
| Itaú                        | EUR  | -      | 30,270 | 25,286 | 29,286 | -      | - |
| Santander                   | EUR  | 25,276 | -      | -      | -      | 2      | - |
| <u>Inflation rates</u>      |      | 72,000 | 72,000 | 92,275 | 87,390 | 17,583 | - |
| Bradesco                    | IPCA | 72,000 | 72,000 | 92,275 | 87,390 | 17,583 | - |
| <u>Variable rate (c)</u>    |      | -      | 4,644  | -      | 4,638  | -      | - |
| Bradesco                    | CDI  | -      | 896    | -      | 899    | -      | - |
| Itaú                        | CDI  | -      | 3,748  | -      | 3,739  | -      | - |

| Description                 | Index | Consolidated   |             | Fair value  |             | Accumulated effect |           |
|-----------------------------|-------|----------------|-------------|-------------|-------------|--------------------|-----------|
|                             |       | Notional Value |             | Mar/2012    | Dec/2011    | Amount             | Amount    |
| <b>Liabilities</b>          |       |                |             |             |             |                    |           |
| <u>Variable rate (a)</u>    |       | (1,191,410)    | (1,150,536) | (1,241,711) | (1,204,745) | -                  | (101,859) |
| BES                         | CDI   | -              | -           | -           | -           | -                  | -         |
| Citibank                    | CDI   | (181,230)      | (187,845)   | (184,215)   | (186,324)   | -                  | (17,465)  |
| Votorantim                  | CDI   | (10,558)       | (13,434)    | (27,491)    | (34,139)    | -                  | (16,526)  |
| Banco do Brasil             | CDI   | (258,900)      | (258,900)   | (269,950)   | (262,576)   | -                  | -         |
| Santander                   | CDI   | (25,276)       | -           | (25,285)    | -           | -                  | -         |
| Bradesco                    | CDI   | (272,239)      | (210,556)   | (292,400)   | (230,901)   | -                  | (26,333)  |
| Itaú                        | CDI   | -              | (36,594)    | -           | (36,753)    | -                  | -         |
| JP Morgan                   | CDI   | (443,207)      | (443,207)   | (442,370)   | (454,052)   | -                  | (41,535)  |
| <u>Variable rate (b)</u>    |       | (72,000)       | (72,000)    | (77,674)    | (75,926)    | -                  | (3,013)   |
| Bradesco                    | IPCA  | (72,000)       | (72,000)    | (77,674)    | (75,926)    | -                  | (3,013)   |
| <u>Foreign currency (c)</u> |       | -              | (4,644)     | -           | (4,685)     | -                  | -         |
| Bradesco                    | USD   | -              | (896)       | -           | (937)       | -                  | -         |
| Itaú                        | USD   | -              | (3,748)     | -           | (3,748)     | -                  | -         |
| Total recognized            |       |                |             |             |             | 197,757            | (104,872) |
| Amounts receivable          |       |                |             |             |             | 197,757            | (104,872) |

**Telefônica Brasil S.A.**

Notes to the quarterly information

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

a) Swaps of foreign currency (USD) x CDI (R\$1,202,181) – swap operations contracted with several maturities until 2019, with the objective of hedging foreign exchange variation for loans (debt fair value of R\$1,181,493).

b) Swap of foreign currency (Euro and Dollar) and (CDI x EUR) (R\$117,814 - swap contracts entered into with maturities until May 29, 2012 with the objective of hedging foreign exchange variation for amounts payable in Euro and Dollar (book value of R\$25,653 in dollars and R\$86,884 in Euro).

c) Swap IPCA x CDI percentage (R\$92,275) – swap transactions contracted with maturities dates until 2014 with the purpose of protecting the cash flow identical to the debentures (4th issuance – 3rd serie) indexed to the IPCA (market value R\$92,275).

The expected maturities of swap contracts as of March 31, 2012 are as follows:

| Swap contracts         | Maturity |          |          |                    | Amount payable/<br>receivable at<br>03/31/2012 |
|------------------------|----------|----------|----------|--------------------|--|
|                        | 2012     | 2013     | 2014     | 2015<br>thereafter |  |
| Foreign Currency x CDI | (25,928) | (26,233) | (5,693)  | 136,139            | 78,285   |
| VOTORANTIM             | (4,502)  | (8,260)  | (3,764)  | -                  | (16,526)                                       |
| BRDESCO                | (6,050)  | (7,423)  | (6,800)  | 32,514             | 12,241   |
| JP MORGAN              | (8,292)  | (15,186) | (18,057) | 103,625            | 62,090   |
| SANTANDER              | 2        | -        | -        | -                  | 2  |
| BANCO DO BRASIL        | -        | 11,484   | -        | -                  | 11,484   |
| CITIBANK               | (7,086)  | (6,848)  | 22,928   | -                  | 8,994  |
| IPCA x CDI             | (1,807)  | (1,176)  | 17,583   | -                  | 14,600   |

Consolidated

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|      |         |         |        |   |        |
|------|---------|---------|--------|---|--------|
| ITAÚ | (1,807) | (1,176) | 17,583 | - | 14,600 |
|------|---------|---------|--------|---|--------|

For the purpose of preparing the ITR's, the Company and its subsidiaries adopted hedge accounting for its foreign currency X CDI and IPCA x CDI swap operations providing financial debt hedge. Under this methodology, both the derivative and the risk covered are stated at fair value.

For the three months period ended March 31, 2012, derivative operations generated a net consolidated loss of R\$31,600 (loss of R\$22,182 as of March 31, 2011), according to note 28.

**Telefônica Brasil S.A.**

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As of March 31, 2012, the Company and its subsidiaries registered R\$197,757 as assets and R\$104,872 as liabilities in order to recognize the derivatives position in that date.

Sensitivity analysis of the Company's risk variables

CVM Deliberation 604/09 requires listed companies to disclose, in addition to the provisions of Technical Pronouncement CPC No. 40 - Financial Instruments: Disclosure (equivalent to IFRS 7), a table showing the sensitivity analysis of each type of market risk inherent in financial instruments considered relevant by management and to which the Company is exposed at the closing date of each reporting period, including all operations involving derivative financial instruments.

In compliance with the foregoing, all the operations involving derivative financial instruments were evaluated considering a probable scenario and two scenarios that may adversely impact the Company.

The assumption taken into consideration under the probable scenario was to keep, the maturity date of each transaction, what has been signaled by the market through BM&FBovespa market curves (currencies and interest rates). Accordingly, the probable scenario does not provide for any impact on the fair value of the derivative financial instruments mentioned above. For scenarios II and III, risk variables contemplated 25% and 50% deterioration, respectively, pursuant to the applicable CVM instruction.

Considering that the Company and Vivo has derivative instruments only to cover its assets and liabilities in foreign currency, the changes in scenarios are offset by changes in the related hedged items, thus indicating that the effects are practically null. For these operations, the Company reported the value of the

hedged item and of the derivative financial instrument on separate rows in the sensitivity analysis table in order to provide information on the Company's and Consolidated net exposure for each of the three mentioned scenarios, as shown below:

**Telefônica Brasil S.A.**

Notes to the quarterly information

Three-months period ended March 31, 2012

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Sensitivity analysis – Net exposureCompany

| <b>Operation</b>                         | <b>Risk</b>                          | <b>Probable 25%</b> | <b>Decrease 50%</b> | <b>De</b> |
|--|--------------------------------------|---------------------|---------------------|-----------|
| Hedge (Assets)                           | Derivatives (risk of USD decrease)   | 293,292             | 363,776             | 4         |
| USD-denominated debt                     | Debts (risk of USD increase)         | (293,291)           | (363,775)           | (4        |
|  | Net Exposure                         | 1                   | 1                   |           |
| Hedge (Assets)                           | Derivatives (Risk of EUR increase)   | 25,286              | 31,688              |           |
| Accounts payable in EUR                  | Debts (risk of EUR decrease)         | (24,574)            | (30,717)            | (         |
|  | Net Exposure                         | 712                 | 971                 |           |
| Hedge (Assets)                           | Derivatives (Risk of USD decrease)   | 22,380              | 27,985              |           |
| Accounts payable in USD                  | Debts (Risk of USD increase)         | (19,499)            | (24,374)            | (         |
|  | Net Exposure                         | 2,881               | 3,611               |           |
| Hedge (Assets)                           | Derivatives (Risk of IPCA decrease)  | 87,390              | 93,798              |           |
| IPCA- denominated debts                  | Debts (Risk of IPCA increase)        | (87,390)            | (93,798)            | (         |
|  | Net Exposure                         | -                   | -                   |           |
| Hedge (Assets - CDI)                     | Derivatives (Risk of CDI increase)   | (413,059)           | (434,620)           | (4        |
| Hedge USD (Liabilities)                  | Derivatives (Risk of CDI increase)   | (289,408)           | (305,247)           | (3        |
| Hedge USD e EUR (Assets and Liabilities) | Derivatives C (Risk of CDI increase) | (47,725)            | (47,842)            | (         |
| Hedge IPCA (Liabilities)                 | Derivatives C (Risk of CDI increase) | (75,926)            | (81,531)            | (         |
|  | Net exposure                         | (413,059)           | (434,620)           | (4        |
| Total net exposure in each scenario      |                                      | (409.465)           | (430,037)           | (4        |
| Effect on changes in fair value, net     |                                      | -                   | (20,572)            | (         |



**Telefônica Brasil S.A.**

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Consolidated

| <b>Operation</b>                     | <b>Risk</b>                             | <b>Probable</b> | <b>25% Decrease</b> | <b>50% Decrease</b> |
|--------------------------------------|---|-----------------|---------------------|---------------------|
| Hedge (Assets)                       | Derivatives (Risk of USD decrease)      | 990,961         | 1,251,720           | 1.524.111           |
| USD-denominated debt                 | Debts (Risk of USD increase)            | (991,168)       | (1,251,980)         | (1.524.430)         |
|                                      | Net Exposure                            | (207)           | (260)               | (312)               |
| Hedge (Assets)                       | Derivatives (Risk of EUR decrease)      | 89,062          | 111,455             | 133.789             |
| Accounts payable in EUR              | Debts (Risk of EUR increase)            | (87,086)        | (108,857)           | (130.628)           |
|                                      | Net Exposure                            | 1,976           | 2,598               | 3.161               |
| Hedge (assets)                       | Derivatives (Risk of USD decrease)      | 28,752          | 35,951              | 43.151              |
| Accounts payable in USD              | Accounts payable (Risk of USD increase) | (25,653)        | (32,066)            | (38.479)            |
|                                      | Net Exposure                            | 3,099           | 3,885               | 4.672               |
| Hedge (Assets)                       | Derivatives (Risk of IPCA decrease)     | 87,390          | 93,798              | 97.778              |
| IPCA- denominated debts              | Debts (Risk of IPCA increase)           | (87,390)        | (93,798)            | (97.778)            |
|                                      | Net Exposure                            | -               | -                   | -                   |
| Hedge (Assets)                       | Derivatives (Risk of USD decrease)      | 212,114         | 274,320             | 340.789             |
| UMBNDDES-denominated debt            | Debts (Risk of UMBNDDES increase)       | (213,661)       | (275,943)           | (342.831)           |
|                                      | Net Exposure                            | (1,547)         | (1,623)             | (2.045)             |
| Hedge (Assets - CDI)                 | Derivatives (Risk of CDI increase)      | (1,320,872)     | (1,413,173)         | (1.484.951)         |
|                                      | Net Exposure                            | (1,320,872)     | (1,413,173)         | (1.484.951)         |
| Total net exposure in each scenario  |   | (1.317.551)     | (1,408,573)         | (1,479,471)         |
| Effect on changes in fair value, net |   | -               | (91,022)            | (161,920)           |

Assumptions for analysis of sensitivity

|          | <b>Risk variable</b> | <b>Probable</b> | <b>25% Decrease</b> | <b>50% Decrease</b> |
|----------|----------------------|-----------------|---------------------|---------------------|
| USD      |                      | 1.8221          | 2.2776              | 2.7332              |
| EUR      |                      | 2.4392          | 3.0491              | 3.6589              |
| IPCA     |                      | 5.49%           | 6.87%               | 8.24%               |
| UMBNDDES |                      | 0.03601         | 0.0450125           | 0.054015            |
| CDI      |                      | 9.52%           | 11.90%              | 14.28%              |

## **Telefônica Brasil S.A.**

Notes to the quarterly information

Three-months period ended March 31, 2012

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(A free translation of the original issued in Portuguese)

To determine the net exposure of the sensibility analysis, all derivatives were considered at market value and only (hedged elements) classified under the accounting method were also considered at fair value.

The fair values shown in the table above are based on the status of the portfolio as of March 31, 2012, not reflecting an estimated realization in view of the market dynamics, always monitored by the Company. The use of different assumptions may significantly impact estimates.

### **36. Subsequent events**

As of April 11, 2012, the General meeting approved the proposed additional dividend destination regarding the remaining balance of the 2011 results and dividends and interest on shareholders' equity prescribed in 2011 in the amount of R\$1,953,029 provided in the proposed allocation of income to holders of common and preferred shares that were included in the records of the Company at the end of the day April 11, 2012.

From May 2, 2012, has began payment of the first installment of R\$1,075,550 and the remainder will be paid until December 21, 2012, in one or more installments, on a date to be set by the Executive Board of the Company and will be communicated in timely manner to the market.



**Telefônica Brasil S.A.**

Management comments

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

**Management comments**

**Net Operating Revenues**

**Note:** In order to better reflect the performance of the integrated company, revenues are presented after intercompany. Additionally, the Mobile Net Revenue considers the allocation of long distance revenue according to origin.

Net service revenues in the quarter recorded an accelerated growth of 12.8% y-o-y, driven by the increased data and internet services consumption, even though affected by the regulatory impacts of the MTR reduction.

**Net Service Revenues**

**(yoy)**

Access and usage revenues increased by 11.9% over 2011, driven by the great adoption to the “Vivo Sempre” and “Vivo Ilimitado” offers and to the strong growth in the customer base.

**Telefônica Brasil S.A.**

Management comments

Three-months period ended March 31, 2012

(In thousands of reais)

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Network usage (interconnection) revenues decreased by 5.0% in comparison with the 1Q11 and by 8.3% q-o-q, due to the reduction in the MTR starting from February, in addition to the lower inbound traffic of other operators.

Data and VAS (Value Added Services) revenues continued to record a strong growth of 33.9% over 1Q11, driven by the growth of SMS services and customer growth with data plans and packages. Accesses with data plans or packages increased by 126% y-o-y.

Data and VAS revenues accounted for 26.8% of mobile net service revenues in the quarter, 4.2 p.p. up on the same period last year. Considering outgoing revenue only, data and VAS would represent 33.3% in the first quarter of 2012.

SMS revenues increased by 39.1% y-o-y, maintaining the growth achieved in previous quarters, driven by the growth in the prepaid customer base and increased adoption of SMS packages in our postpaid unlimited plans.

Mobile internet revenues increased by 24.7% in comparison with 1Q11 and 2.8% in relation to 4Q11, accounting for 50.3% of total data revenues in the quarter, driven by the increase in sales of modems and smartphones with data plans and packages.

Other Data and VAS Revenues increased by 59.1% over 1Q11, primarily due to the performance of interactive services based on SMS (P2A) and download of apps and contents, beyond the growth in innovative services such as financial and e-health.

The annual decrease of 40.3% of net handset revenues is mainly explained by higher sales of naked SIM Cards' and handset sales through direct supply, besides the implementation of the 1800 Mhz band.

**Telefônica Brasil S.A.**

Management comments

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

**Net Operating Revenues**

**Note:** In order to better reflect the performance of the integrated company, revenues are presented after intercompany. Additionally, the Net operating fixed revenue considers the allocation of long distance revenue according to origin and the allocation of revenues arising from FWT solution (Vivo Fixo and Vivo Box).

Fixed net revenues reduced by 4.1% in the year, mainly impacted by the decrease in fixed-line-originated local voice revenue, despite the increase of data and Pay TV revenues.

Voice and accesses revenues decreased by 14.6% in relation to 1Q11, mainly due to the drop in the traffic originated by fixed-line, the lower customer base and the reduction in the fixed-mobile rates as of February 24th.

Network usage revenues were 1.6% higher than in 1Q11.

Data revenues increased by 10.5% in relation to 1Q11 despite the increasingly competitive environment. Part of this change is due to the growth in the broadband customer base (+9.1% y-o-y), especially the growth in Vivo Fiber and in the corporate business.

It is important to point out the growth in data revenues over the total fixed revenues, climbing from 24.1% in the 1Q11 to 27.8% in the 1Q12.

In 1Q12, Pay TV revenues recorded growth of 45.4% over 1Q11, mainly due to the consolidation of TVA's pay TV business results as of 2Q11. Excluding this effect, these revenues would have increased by 1.8% over 1Q11.

**Telefônica Brasil S.A.**

Management comments

Three-months period ended March 31, 2012

(In thousands of reais)

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Other Revenues increased by 17.7% over 1Q11, primarily due to the increased supply of hardware and equipments related to integrated solutions to the corporate business.

**CONSOLIDATED OPERATING COSTS**

COMBINED FOR 1Q11

**OPERATING COSTS**



## **Telefônica Brasil S.A.**

### Management comments

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

Total operating costs, excluding depreciation and amortization expenses, came to R\$5,467.0 million in the quarter, 5.6% up over the previous year. This increase was mainly due to expenses related to the Company's operational integration and increased selling activity, partially offset by the sale of non-strategic assets in the quarter.

The cost of services rendered in 1Q12 climbed by 6.8% over 1Q11, mainly due to growth in the customer base and its increased activity, reflected in higher expenses with Fistel, Fust and Funtel, as well as higher rent expenses due to the annual expansion of more than 100% in 3G coverage. Additionally, the cost of Pay TV content contributed to the increase in the cost of services rendered in the quarter. When compared to 4Q11, it recorded an increase of 0.6% due to the higher expenses with taxes, third party services and others, offset by the reduction in interconnection expenses due to the reduction in the MTR.

The cost of goods sold in 1Q12 fell by 10.7% and by 2.3% over 1Q11 and 4Q11, respectively. The performance in 1Q12 results from the increase in sales of naked SIM cards', increased by the implementation of the 1800 Mhz band.

Selling expenses climbed by 10.3% over 1Q11, pushed by increased expenditure on call center expenses resulting from adjustments to inflation in the period. Additionally, selling commissions increased due to the growth in the customer base and gross additions.

The Provision for Doubtful Accounts (PDA) totaled R\$181.9 million in 1Q12, corresponding to 1.5% of total gross revenues, higher than the 1.2% and the 1.1% recorded in 1Q11 and 4Q11, respectively. This increase is due to higher default in the market and is concentrated in the individual business, due to the high increase of customers in the post-paid and control plans. We hope to keep controlled PDA levels through the continuous improvement of the granting of credit and rigid control over recoveries.



## **Telefônica Brasil S.A.**

Management comments

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

General and administrative expenses increased by 21.9% in 1Q12 when compared to the 1Q11 and dropped by 23.9% when compared to the 4Q11. These variations are due, mainly, to incremental expenses related to optimization of the facilities for the integrated structure, the beginning of the new data center operation and third-party contracts mainly in maintenance, adjusted according to inflation in the period.

Other net operating revenues/expenses recorded revenues of R\$183.0 million in 1Q12, due to the sales of non-strategic assets (+R\$216.5 million), partially offset by civil contingencies. When compared to 4Q11, the evolution is explained by the lower sales of non-strategic assets.

## **DEPRECIATION AND AMORTIZATION**

### **DEPRECIATION**

Depreciation and amortization grew by 21.6% in the y-o-y comparison, mainly due to an increase in expenses with amortization of goodwill.

## **FINANCIAL RESULT**

### **NET FINANCIAL INCOME**

The net financial expenses increased by R\$51.2 million in 1Q12 over 1Q11, due to the increase in net indebtedness and lower returns on financial investments.

## Telefônica Brasil S.A.

Management comments

Three-months period ended March 31, 2012

(In thousands of reais)

(A free translation of the original issued in Portuguese)

## Capex

### CAPEX

Capex of R\$1,164.6 million in 1Q12 increased by 63.4% over 1Q11 due to the investments for increasing network capacity and quality, as well as increase of the 3G coverage. Capex recorded 14.3% of the net revenue in 1Q12, against 9.2% in 1Q11, due to the greater speed in execution of the investment projects in the period.

### INDEBTEDNESS

The Company ended 1Q12 with gross debt of R\$5,928.0 million, 19.9% of which denominated in foreign currency. The decrease of 4.4% in relation to 4Q11 is related to the amortizations of financing debt with BNDES and BNB.

The Net debt totaled R\$2,657.9 million in 1Q12, representing 0.22 of EBITDA in the last 12 months. In comparison with 4Q11, the net debt recorded a reduction of 16.0%, mainly explained by generation of cash

by the Company. The foreign exchange exposure of the debt is 100% covered by hedge transactions.

Non-financial data such as: customer base, gross additions, average volumes of recharge, market-share, meeting the quality goals determined by ANATEL, received awards and quotes, among others, have not been reviewed by our independent auditors.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 4, 2012

**TELEFÔNICA BRASIL S.A.**  
By: /s/ Carlos Raimar Schoeninger  
Name: Carlos Raimar Schoeninger  
Title: Investor Relations Director

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