

TELEFONICA BRASIL S.A.
Form 6-K
May 19, 2014

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

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

For the month of May, 2014

Commission File Number: 001-14475

TELEFÔNICA BRASIL S.A.

(Exact name of registrant as specified in its charter)

TELEFONICA BRAZIL S.A.

(Translation of registrant's name into English)

Av. Eng° Luís Carlos Berrini, 1376 - 28° andar

São Paulo, S.P.

Federative Republic of Brazil

(Address of principal executive office)

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

Form 20-F

Form 40-F

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

Yes

No

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

Report on quarterly information review

**Grant Thornton Auditores
Independentes**

Av. Paulista, 37 – 1º andar

Edifício Parque Cultural
Paulista | Bela Vista

São Paulo | SP | Brasil

T +55 11 3886.5100

www.granthornton.com.br

To Shareholders, Board Members and Management of

Telefonica 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, 2014, which comprises the balance sheet of March 31, 2014 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.

The management is responsible for the preparation of the individual interim financial information in accordance with Technical Pronouncement CPC 21 (R1) – Interim Statements, and the consolidated interim financial information in accordance with CPC 21 (R1) and international standard IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board – IASB, as well as for the presentation of the information in accordance with the standards issued by CVM (Comissão de Valores Mobiliários – Brazilian SEC), applicable to the preparation of Interim Information – ITR. Our responsibility is to express a conclusion on the interim accounting information based on our review.

Scope of review

We have conducted our review according to the Brazilian and International standards of review for interim information (NBC TR 2410 - Revisão de Informações Intermediárias Executada pelo Auditor da Entidade and ISRE 2410 - “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, respectively). A review of interim information consists of queries, especially 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 smaller than the scope of an audit conducted in accordance with audit standards and, consequently, it did not allow us to obtain assurance that we were aware of all significant matters which could be identified in an audit. Consequently, we did not express an audit opinion.

Conclusion on the individual interim financial statements

Based on our review, we are not aware of any fact which could lead us to believe that the individual interim financial statements included in the quarterly information referred to above were not prepared, in all relevant aspects, in accordance with CPC 21 (R1), applicable to the preparation of the Quarterly Information – ITR, and presented according to the standards issued by CVM.

Conclusion on the consolidated interim financial information

Based on our review, we are not aware of any fact which could lead us to believe that the consolidated interim financial statements included in the quarterly information referred to above were not prepared, in all relevant aspects, in accordance with CPC 21 (R1), and IAS 34, applicable to the preparation of the Quarterly Information – ITR, and presented according to the standards issued by CVM.

Other matters

Interim information of value added

We have also reviewed, the interim statement of value added (SVA), individual and consolidated, related to the three-month period ended on March 31, 2014, prepared under the Entity's management responsibility, the presentation of which, in the interim information, is required according to the standards issued by CVM applicable to the preparation of Quarterly Information – ITR, and considered as supplementary information by the IFRSs, 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 lead us to believe that they were not prepared, in all material aspects, in accordance with the individual and consolidated interim financial information as a whole.

São Paulo, May 07, 2014.

Clóvis Ailton Madeira

CTCRC N° 1SP106895/O-1 "S"

Grant Thornton Auditores Independentes
CRC SP-025.583/O-1

TELEFÔNICA BRASIL S.A.
Balance sheets
March 31, 2014 and December 31, 2013
(In thousands of reais)

| ASSETS | Note | Company | | Consolidated | |
|--|-------------|-------------------|-------------------|---------------------|-------------------|
| | | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Current assets | | 14,288,460 | 15,632,730 | 14,813,939 | 15,936,633 |
| Cash and cash equivalents | 3 | 3,880,907 | 6,311,299 | 4,544,521 | 6,543,936 |
| Trade accounts receivable, net | 4 | 5,702,497 | 5,541,023 | 5,914,608 | 5,802,859 |
| Inventories | 5 | 535,005 | 469,586 | 564,241 | 505,615 |
| Taxes recoverable | 6,1 | 1,968,530 | 2,168,797 | 1,996,637 | 2,191,962 |
| Judicial deposits and garnishments | 7 | 219,758 | 204,165 | 219,758 | 204,165 |
| Derivative transactions | 32 | 265,588 | 89,499 | 265,588 | 89,499 |
| Prepaid expenses | 8 | 1,017,072 | 254,743 | 1,020,583 | 257,286 |
| Dividends and interest on equity | 17 | 59,206 | 60,346 | - | 1,140 |
| Other assets | 9 | 639,897 | 533,272 | 288,003 | 340,171 |
| Noncurrent assets | | 53,664,661 | 53,982,379 | 53,136,921 | 53,604,442 |
| Short-term investments pledged as collateral | 3 | 108,152 | 106,239 | 108,365 | 106,455 |
| Trade accounts receivable, net | 4 | 169,175 | 160,478 | 266,193 | 257,086 |
| Taxes recoverable | 6,1 | 422,170 | 368,388 | 422,170 | 368,388 |
| Deferred taxes | 6,2 | - | - | 198,171 | 210,294 |
| Judicial deposits and garnishments | 7 | 4,266,826 | 4,123,584 | 4,292,056 | 4,148,355 |
| Derivative transactions | 32 | 110,434 | 329,652 | 110,434 | 329,652 |
| Prepaid expenses | 8 | 25,913 | 24,879 | 26,257 | 25,364 |
| Other assets | 9 | 144,821 | 127,567 | 145,041 | 127,793 |
| Investments | 10 | 1,218,073 | 1,076,696 | 83,296 | 86,349 |
| Property, plant and equipment, net | 11 | 18,204,569 | 18,377,905 | 18,274,345 | 18,441,647 |
| Intangible assets, net | 12 | 28,994,528 | 29,286,991 | 29,210,593 | 29,503,059 |
| Total assets | | 67,953,121 | 69,615,109 | 67,950,860 | 69,541,075 |

TELEFÔNICA BRASIL S.A.
Balance sheets
March 31, 2014 and December 31, 2013
(In thousands of reais)

| LIABILITIES AND EQUITY | Note | Company | | Consolidated | |
|--|------|-------------------|-------------------|-------------------|-------------------|
| | | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Current liabilities | | 13,077,201 | 13,862,290 | 13,063,205 | 13,768,244 |
| Personnel, social charges and benefits | 13 | 340,514 | 427,067 | 343,522 | 431,403 |
| Trade accounts payable | 14 | 6,167,908 | 6,948,957 | 6,249,537 | 6,914,009 |
| Taxes, charges and contributions | 15 | 1,289,931 | 1,269,105 | 1,320,943 | 1,315,164 |
| Loans, financing and lease | 16.1 | 1,845,626 | 1,236,784 | 1,845,626 | 1,236,784 |
| Debentures | 16.2 | 295,675 | 286,929 | 295,675 | 286,929 |
| Dividends and interest on equity | 17 | 609,582 | 1,187,556 | 609,582 | 1,187,556 |
| Provisions | 18 | 608,346 | 561,403 | 608,346 | 561,403 |
| Derivative transactions | 32 | 48,601 | 44,463 | 48,601 | 44,463 |
| Deferred revenue | 19 | 844,683 | 812,843 | 848,397 | 817,551 |
| Payable from reverse split of fractional shares | | 389,174 | 389,220 | 389,174 | 389,220 |
| Authorization license | | 103,663 | 95,768 | 103,663 | 95,768 |
| Other liabilities | 20 | 533,498 | 602,195 | 400,139 | 487,994 |
| Noncurrent liabilities | | 12,365,985 | 12,858,377 | 12,377,720 | 12,878,389 |
| Personnel, social charges and benefits | 13 | 14,601 | 18,698 | 14,601 | 18,698 |
| Taxes, charges and contributions | 15 | 101,245 | 52,252 | 124,073 | 75,074 |
| Deferred taxes | 6.2 | 785,381 | 722,634 | 785,381 | 722,634 |
| Loans, financing and lease | 16.1 | 2,404,672 | 3,215,156 | 2,404,672 | 3,215,156 |
| Debentures | 16.2 | 4,016,671 | 4,014,686 | 4,016,671 | 4,014,686 |
| Provisions | 18 | 4,222,322 | 4,042,789 | 4,242,219 | 4,062,410 |
| Derivative transactions | 32 | 32,311 | 24,807 | 32,311 | 24,807 |
| Deferred revenue | 19 | 253,884 | 252,351 | 254,842 | 253,661 |
| Liabilities for post-retirement benefit plans | 31 | 378,953 | 370,351 | 378,953 | 370,351 |
| Other liabilities | 20 | 155,945 | 144,653 | 123,997 | 120,912 |
| Equity | | 42,509,935 | 42,894,442 | 42,509,935 | 42,894,442 |
| Capital | 21 | 37,798,110 | 37,798,110 | 37,798,110 | 37,798,110 |
| Capital reserves | 21 | 2,686,897 | 2,686,897 | 2,686,897 | 2,686,897 |
| Income reserves | 21 | 1,287,496 | 1,287,496 | 1,287,496 | 1,287,496 |
| Premium on acquisition of non-controlling interest | 21 | (70,448) | (70,448) | (70,448) | (70,448) |
| Other comprehensive income | 21 | 14,572 | 16,849 | 14,572 | 16,849 |
| Retained earnings | 21 | 660,770 | - | 660,770 | - |
| Additional dividend proposed | 21 | 132,538 | 1,175,538 | 132,538 | 1,175,538 |
| Total liabilities and equity | | 67,953,121 | 69,615,109 | 67,950,860 | 69,541,075 |

TELEFÔNICA BRASIL S.A.**Income statements****Three-month periods ended March 31, 2014 and 2013****(In thousands of reais)**

| | | Company | | Consolidated |
|--|-------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | Note | 1st quarter of 2014 | 1st quarter of 2013 | 1st quarter of 2013 |
| Net operating revenue | 22 | 8,194,049 | 3,149,971 | 8,611,930 |
| Cost of sales | 23 | (4,195,200) | (2,065,338) | (4,396,344) |
| Gross profit | | 3,998,849 | 1,084,633 | 4,215,586 |
| Operating income (expenses) | | (2,936,282) | (163,470) | (3,095,292) |
| Selling expenses | 23 | (2,483,497) | (772,866) | (2,510,013) |
| General and administrative expenses | 23 | (487,451) | (182,331) | (487,965) |
| Equity pickup | 10 | 145,435 | 795,367 | 1,000,000 |
| Other operating income (expenses), net | 24 | (110,769) | (3,640) | (98,315) |
| Operating Income before financial income (expenses) | | 1,062,567 | 921,163 | 1,120,299 |
| Financial income | 25 | 521,317 | 111,436 | 538,013 |
| Financial expenses | 25 | (626,249) | (166,742) | (626,343) |
| Income before taxes | | 957,635 | 865,857 | 1,031,969 |
| Income and social contribution taxes | 26 | (296,865) | (55,682) | (371,199) |
| Net income for the period | | 660,770 | 810,175 | 660,770 |
| Basic and diluted earnings per common share | | 0.55 | 0.68 | |
| Basic and diluted earnings per preferred share | | 0.61 | 0.74 | |

TELEFÔNICA BRASIL S.A.
Statements of changes in equity
Three-months periods ended March 31, 2014 and 2013
(In thousands of reais)

| | | | | | Capital reserve | |
|--|-------------------|--|--------------------------|-----------------------|------------------|------------------|
| | Capital | Premium on acquisition of noncontrolling interests | Special goodwill reserve | Other capital reserve | Treasury shares | Legal reserve |
| Balances at December 31, 2012 | 37,798,110 | (70,448) | 63,074 | 2,735,930 | (112,107) | 1,100,000 |
| Additional dividend proposed for 2012 | - | - | - | - | - | - |
| Other comprehensive income (loss) | - | - | - | - | - | - |
| Net income for the period | - | - | - | - | - | - |
| Balances at March 31, 2013 | 37,798,110 | (70,448) | 63,074 | 2,735,930 | (112,107) | 1,100,000 |
| Additional dividend proposed for 2012 | - | - | - | - | - | - |
| Unclaimed dividends and interest on equity | - | - | - | - | - | - |
| DIPJ adjustment – tax incentives | - | - | - | - | - | - |
| Other comprehensive income (loss) | - | - | - | - | - | - |
| Net income for the period | - | - | - | - | - | - |
| Allocation of income : | | | | | | |
| Legal reserve | - | - | - | - | - | 185,790 |
| Interim interest on Equity | - | - | - | - | - | - |
| Interim dividend | - | - | - | - | - | - |
| Additional dividend proposed | - | - | - | - | - | - |
| Balances at December 31, 2013 | 37,798,110 | (70,448) | 63,074 | 2,735,930 | (112,107) | 1,285,790 |
| Additional dividend proposed for 2013 | - | - | - | - | - | - |
| Other comprehensive income (loss) | - | - | - | - | - | - |
| Net income for the period | - | - | - | - | - | - |
| Balances at March 31, 2014 | 37,798,110 | (70,448) | 63,074 | 2,735,930 | (112,107) | 1,285,790 |
| Outstanding shares (in thousands) | | | | | | |
| Equity value of shares | | | | | | |

TELEFÔNICA BRASIL S.A.
Statements of comprehensive income
Three-month periods ended March 31, 2014 and 2013
(In thousands of reais)

| | Company | | |
|---|--------------------|----------------------------|------------|
| | 1st quarter | | |
| | of 2014 | 1st quarter of 2013 | 1st |
| Net income for the period | 660,770 | 810,175 | |
| Unrealized losses on investments available for sale | (1,295) | (11,258) | |
| Taxes | 440 | 3,997 | |
| | (855) | (7,261) | |
| Cumulative translation adjustments - operations in foreign currency | (2,763) | (2,490) | |
| Other comprehensive income to be reclassified to gains (losses) for subsequent periods | (3,618) | (9,751) | |
| Actuarial gains (losses) and limitation effect of the assets of surplus plans | - | - | |
| Taxes | - | - | |
| | - | - | |
| Gains (losses) derivative transactions | 2,032 | - | |
| Taxes | (691) | - | |
| | 1,341 | - | |
| Interest in comprehensive income of subsidiaries | - | (3,376) | |
| Other comprehensive income not to be reclassified to gains (losses) for subsequent periods | 1,341 | (3,376) | |
| Comprehensive income for the period, net of taxes | 658,493 | 797,048 | |

TELEFÔNICA BRASIL S.A.**Cash flow statements****Three-month periods ended March 31, 2014 and 2013****(In thousands of reais)**

| | Company | | |
|--|----------------------------|----------------------------|---------------|
| | 1st quarter of 2014 | 1st quarter of 2013 | 1st qu |
| Cash generated by operating activities | | | |
| Income before taxes | 957,635 | 865,857 | |
| Expenses (revenues) not representing changes in cash | 1,828,803 | 50,855 | |
| Depreciation and amortization | 1,438,697 | 668,409 | |
| Foreign exchange (gains) losses on loans | 30,306 | 9,924 | |
| Monetary (gains) losses | 22,087 | 8,571 | |
| Equity pickup | (145,435) | (795,367) | |
| Losses on write-off/sale of goods | 16,232 | (53,996) | |
| Provision for impairment - accounts receivable | 196,448 | 80,152 | |
| Provision (reversal) of trade accounts payable | (20,340) | (7,969) | |
| Provision (Write-offs and reversals of) provision for impairment – | | | |
| inventories | (3,345) | 3,294 | |
| Pension plans and other post-employment benefits | 7,882 | 6,648 | |
| Provisions for tax, civil, labor and regulatory contingencies | 125,959 | 63,881 | |
| Interest expense | 159,981 | 69,375 | |
| Provision for (reversal of) divestiture | 366 | (2,067) | |
| Provisions for customer loyalty program | (35) | - | |
| (Increase) decrease in operating assets: | (1,308,685) | (88,194) | |
| Trade accounts receivable | (366,619) | (48,917) | |
| Inventories | (62,074) | (10,303) | |
| Taxes recoverable | (106,361) | (1,239) | |
| Prepaid expenses | (656,776) | (16,449) | |
| Other current assets | (110,330) | 9,355 | |
| Other noncurrent assets | (6,525) | (20,641) | |

TELEFÔNICA BRASIL S.A.**Cash flow statements** (Continued)**Three-month periods ended March 31, 2014 and 2013****(In thousands of reais)**

| | | | | |
|--|--------------------|--------------------|--------------------|--------------------|
| Increase (decrease) in operating liabilities: | (637,671) | 18,959 | (591,905) | (479,620) |
| Personnel, social charges and benefits | (90,650) | (50,628) | (91,978) | (63,820) |
| Trade accounts payable | (322,904) | 6,967 | (169,852) | (393,922) |
| Taxes, charges and contributions | 239,973 | 158,013 | 218,977 | 520,724 |
| Interest paid | (196,524) | (93,643) | (196,524) | (160,627) |
| Income and social contribution taxes paid | (151,677) | - | (207,928) | (351,863) |
| Other current liabilities | (53,042) | 20,097 | (73,194) | (9,382) |
| Other noncurrent liabilities | (62,847) | (21,847) | (71,406) | (20,730) |
| Total cash provided by operating activities | 840,082 | 847,477 | 1,271,064 | 2,261,397 |
| Cash provided by (used in) investing activities | | | | |
| Future capital contributions in subsidiaries | - | (46,050) | - | - |
| Additions to PP&E and intangible assets (net of donations) | (1,418,198) | (480,723) | (1,424,540) | (1,127,556) |
| Cash received from sale of PP&E items | 4,581 | 20,045 | 4,581 | 316,407 |
| Redemption (realization) of judicial deposits | (89,532) | (21,128) | (83,195) | (25,586) |
| Dividends and interest on equity received | 1,140 | 1,320,449 | 1,140 | - |
| Total cash provided by (used in) investing activities | (1,502,009) | 792,593 | (1,502,014) | (836,735) |
| Cash used in (provided by) financing activities | | | | |
| Payments of loans ,financing and debentures | (218,718) | (108,603) | (218,718) | (220,772) |
| Loans and debentures raised | 87,422 | - | 87,422 | 9,493 |
| Payment net of derivative agreements | (16,149) | (6,130) | (16,149) | (12,749) |
| Reversed split/fractional shares paid | (46) | (68) | (46) | (68) |
| Dividends and interest on equity paid | (1,620,974) | (1,583,101) | (1,620,974) | (1,583,101) |
| Total cash used in (provided by) financing activities | (1,768,465) | (1,697,902) | (1,768,465) | (1,807,197) |
| Decrease in cash and cash equivalents | (2,430,392) | (57,832) | (1,999,415) | (382,535) |
| Cash and cash equivalents at beginning of period | 6,311,299 | 3,079,282 | 6,543,936 | 7,133,485 |
| Cash and cash equivalents at end of period | 3,880,907 | 3,021,450 | 4,544,521 | 6,750,950 |
| Changes in cash and cash equivalents in the period | (2,430,392) | (57,832) | (1,999,415) | (382,535) |

TELEFÔNICA BRASIL S.A.
Statements of value added
Three-month periods ended March 31, 2014 and 2013
(In thousands of reais)

| | Company | | Consolidated |
|---|------------------------|---------------------|---------------------|
| | 1st quarter of 2014 | 1st quarter of 2013 | 1st quarter of 2014 |
| Revenues | 11,150,697 | 4,138,408 | 11,674,630 |
| Sales | 11,190,046 | 4,156,028 | 11,710,265 |
| Other revenues | 157,099 | 62,532 | 172,225 |
| Provision for impairment - accounts receivable | (196,448) | (80,152) | (207,860) |
| Inputs acquired from third parties | (4,206,498) | (1,888,358) | (4,441,803) |
| Cost of sales and resales | (2,343,933) | (1,410,444) | (2,562,140) |
| Materials, electric energy, outsourced services and other | (1,848,534) | (535,110) | (1,863,972) |
| Loss/recovery of assets values | (14,031) | 57,196 | (15,691) |
| Gross value added | 6,944,199 | 2,250,050 | 7,232,827 |
| Retentions | (1,438,697) | (668,409) | (1,443,554) |
| Depreciation and amortization | (1,438,697) | (668,409) | (1,443,554) |
| Net value added produced | 5,505,502 | 1,581,641 | 5,789,273 |
| Value added received in transfer | 666,752 | 906,803 | 539,018 |
| Equity pickup | 145,435 | 795,367 | 1,005 |
| Financial income | 521,317 | 111,436 | 538,013 |
| Total value added to be distributed | 6,172,254 | 2,488,444 | 6,328,291 |

TELEFÔNICA BRASIL S.A.
Statements of value added (Continued)
Three-month periods ended March 31, 2014 and 2013
(In thousands of reais)

| Distribution of value added | (6,172,254) | (2,488,444) | (6,328,291) | (6,302,597) |
|---|--------------------|--------------------|--------------------|--------------------|
| Personnel, social charges and benefits | (561,966) | (249,859) | (567,222) | (633,978) |
| Direct compensation | (360,531) | (142,479) | (364,208) | (376,112) |
| Benefits | (172,408) | (84,599) | (173,625) | (218,250) |
| FGTS | (29,027) | (22,781) | (29,389) | (39,616) |
| Taxes, charges and contributions | (3,697,844) | (1,049,321) | (3,846,589) | (3,857,609) |
| Federal | (1,235,885) | (303,377) | (1,361,210) | (1,473,575) |
| State | (2,447,866) | (733,561) | (2,449,653) | (2,363,153) |
| Municipal | (14,093) | (12,383) | (35,726) | (20,881) |
| Debt remuneration | (1,056,434) | (283,243) | (1,057,740) | (855,316) |
| Interest | (625,501) | (165,300) | (625,500) | (379,856) |
| Rental | (430,933) | (117,943) | (432,240) | (475,460) |
| Equity remuneration | (660,770) | (810,175) | (660,770) | (810,175) |
| Retained profit | (660,770) | (810,175) | (660,770) | (810,175) |
| Other | (195,240) | (95,846) | (195,970) | (145,519) |
| Provisions for tax, civil, labor and regulatory contingencies | (195,240) | (95,846) | (195,970) | (145,519) |

Telefônica Brasil S.A.

Notes to Quarterly Information

Three-month period ended March 31, 2014

(In thousands of reais)

1. OPERATIONS

a. Background information

Telefônica Brasil S.A. (Company or Telefônica Brasil) is a publicly-traded corporation operating in telecommunication services and in the performance of activities that are necessary or useful in the rendering of such services, in conformity with the concessions, authorizations and permits it has been or granted. The Company, headquartered at Avenida Engenheiro Luiz Carlos Berrini, nº 1376, in the city and State of São Paulo, Brazil, is a member of Telefónica Group, the telecommunications industry leader in Spain, also being present in various European and Latin American countries. At March 31, 2014 and December 31, 2013, Telefónica S.A., holding company of the Group, held a total of 73.81% direct and indirect interest in the Company, being 91.76% of common shares and 64.60% of preferred shares (See Note 21).

b. Operations

The Company is primarily engaged in the rendering of land-line telephone and data services in the state of São Paulo, under Fixed Switched Telephone Service Concession Arrangement (STFC) and Multimedia Communication Service (SCM) authorization, respectively. Also, the Company is authorized to render STFC services in Regions I and II of the General Service Concession Plan (PGO/2008) and other telecommunications services, such as SCM (data communication, including broadband internet), SMP (Personal Communication Services) and SEAC (Conditional Access Audiovisual Services) (especially by means of DTH and cable technologies).

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

regulations and plans issued.

b.1) STFC service concession arrangement

The Company is the grantee on an STFC concession to render land-line services in the local network and national long distance calls originated in sector 31 of region III, which comprises the state of São Paulo (except for cities within sector 33), as established in the General Service Concession Plan (PGO/2008).

The Company's current STFC service concession arrangement is effective until December 31, 2025, and may be subject to reviews on December 31, 2015 and December 31, 2020.

In accordance with the service concession arrangement, every two years, during the arrangement's 20-year term, the Company shall pay a fee equivalent to 2% (two percent) of its prior-year STFC revenue, net of applicable taxes and social contributions.

b.2) Authorizations and frequencies related to Mobile Telephone Services (SMP)

Frequency authorizations granted by ANATEL for mobile telephone services may be renewed only once, over a 15-year period, through payment, every two years after the first renewal, of fees equivalent to 2% (two percent) of the Company's prior-year revenue, net of taxes and social contributions, related to the application of the Basic and Alternative Plans of Service.

Telefônica Brasil S.A.

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The Company operates SMP services, in accordance with the authorizations it has been given. Information on operation areas (regions) and expirations of radiofrequency authorizations are the same as in Note 1.c2 - "Authorizations and frequencies related to mobile telephone services", disclosed in the financial statements as at December 31, 2013.

c. Corporate restructuring

In order to streamline the Company's organizational structure, to rationalize the services provided by its subsidiaries and to concentrate service provision in two operating entities, namely the Company and its wholly-owned subsidiary Telefônica Data S.A. (TData or Subsidiary), the Company carried out a corporate restructuring approved by ANATEL, under the terms of Act No. 3,043 of May 27, 2013, as published in the Federal Official Gazette (DOU) of May 29, 2013, subject to the conditions thereunder.

The Board of Directors' meeting held on June 11, 2013 approved the terms and conditions of the corporate restructuring process involving the Company's wholly-owned subsidiaries and subsidiaries.

Company General Annual Meeting held on July 1, 2013 approved aforementioned corporate restructuring, which included spin-offs and mergers of subsidiaries and of companies directly or indirectly controlled by the Company, so that the economic activities other than telecommunications services, including the provision of Value Added Services as defined in article 61 of the General Telecommunications Law (LGT) (with such activities being jointly and generally referred to as SVAs), provided by the various wholly-owned subsidiaries/subsidiaries were concentrated in TData and the telecommunication services were consolidated by the Company.

All of the spin-offs or split-ups, as the case may be, and the merger of the net assets of the companies involved in the restructuring process took place on the same date and had the same base date (April 30, 2013), as follows: the Company merged (i) the net assets of TData, arising from its spin-off, corresponding to the activities related to the provision of service of Multimedia Communication Service (SCM); (ii) the net assets of Vivo S.A. (Vivo), arising from its split-up, corresponding to the use of Personal Communication Services (SMP), Multimedia Communication Services (SCM) and STFC in local, domestic and international long distance calls in regions I and II of the General Service Concession Plan (PGO); (iii) the net assets of ATelecom S.A. (ATelecom), arising from its split-up, corresponding to the activities related to the provision of Conditional Access Audiovisual Services (SEAC) (through DTH technology) and SCM, and the net assets of SVAs and other services other than telecommunications services were merged into TData, thus ATelecom's operations was ceased; and (iv) Telefônica Sistema de Televisão S.A. (TST), which concentrated the activities related to the provision of SEAC and SCM services before its merger into the Company, due to the full merger of Lemontree Participações S.A. (Lemontree), GTR-T Participações e Empreendimentos S.A. (GTR-T), Ajato Telecomunicações Ltda (Ajato), Comercial Cabo TV São Paulo S.A.

(CaTV) e TVA Sul Paraná S.A. (Sul Paraná), thus TST, Lemontree, GTR-T, Ajato, CaTV and Sul Paraná had its operations ceased.

The merger of companies and net assets previously described did not result in any capital increase or issue of new Company shares; accordingly, the corporate restructuring did not result in any changes in ownership interest currently held by Company shareholders.

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There is no question of replacing shares of noncontrolling shareholders of the spun-off companies with shares of the merging company, since the Company was, upon the merger of net assets and/or companies, as the case may be, the sole shareholder of the companies spun off/ merged. Accordingly, an equity valuation report at market price was not prepared for calculating the noncontrolling share replacement ratio as defined in article 264 of Law No. 6,404/76 and item VI, paragraph 1, article 2 of CVM Rule No. 319/99, based on recent understandings expressed by the Brazilian Securities and Exchange Commission (CVM) regarding consultations in connection with similar restructuring processes and based on CVM Rule No. 559, of November 18, 2008.

The corporate restructuring was described in detail in Note 1b) - "Corporate restructuring" disclosed in the financial statements as at December 31, 2013.

d. Share trading on stock exchanges

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

e. Agreement between Telefónica S.A. and Telecom Italia

TELCO S.p.A. (in which Telefónica S.A. held a 46.18% interest) has a 22.4% interest with voting rights in Telecom Italia, being the major shareholder of this company.

The Company is an indirect subsidiary of Telefónica S.A., and Telecom Italia holds an indirect interest in TIM S.A. (TIM), a Brazilian telecommunications company. Neither Telefónica S.A., nor Telefônica Brasil or any other affiliate of Telefónica S.A. interfere in, are involved with or have decision-making powers over

TIM operations in Brazil, also being lawfully and contractually forbidden to exercise any type of political power derived from indirect interest held as concerns operations in Brazil, directly related to TIM operations. TIM (Brazil) and Telefônica Brasil compete in all markets in which they operate in Brazil under permanent competitive stress and, in this context, as well as in relation to the other economic players in the telecommunications industry, maintain usual and customary contractual relations with one another (many of which are regulated and inspected by ANATEL) and/or which, as applicable, are informed to ANATEL and Brazil's Administrative Council for Economic Defense (CADE), concerning the commitments assumed before these agencies so as to ensure total independence of their operations.

On September 24, 2013, Telefónica S.A., entered into an agreement with the other shareholders of the Italian company TELCO S.p.A. (which holds a 22.4% voting in Telecom Italia S.p.A.), whereby:

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1) Telefónica S.A. subscribed and paid up capital in TELCO, S.p.A. through a contribution of 324 million euros, receiving shares without voting rights of TELCO, S.p.A. As a result of this capital increase, the share capital of Telefónica S.A. voting in TELCO, S.p.A. remaining unchanged (remaining at 46.18%), although their economic participation rose to 66%. Thus, the governance of TELCO S.p.A., as well as the obligations of Telefónica S.A. to abstain from participating in or influencing the decisions that impact the industries where they both operate, remained unchanged.

2) Subject to obtaining the required previous approvals from antitrust authorities and telecommunications regulatory agencies as applicable (including Brazil and Argentina), Telefónica S.A. will be involved in another capital increase in TELCO S.p.A. amounting to 117 million euros, receiving shares with no voting rights of TELCO, S.p.A. As a result of this capital increase, the share capital of Telefónica S.A. voting in TELCO, S.p.A. will remain unchanged (at 46.18% interest in voting shares), although its economic interest will rise to 70%.

3) Beginning as of January 1st, 2014, following approvals from antitrust authorities and telecommunications regulatory agencies as applicable (including Brazil and Argentina), Telefónica S.A. will be entitled to convert all or part of nonvoting shares into common shares with voting rights, limited however to a 64.9% interest in TELCO S.p.A. voting capital.

4) Italian shareholders of TELCO S.p.A. granted Telefónica S.A. an option to purchase all of their shares in TELCO S.p.A.. Exercising this call option is also subject to obtaining the required previous approvals from antitrust authorities and telecommunications regulatory agencies as applicable (including Brazil and Argentina), beginning eligible after January 1st 2014, whenever the Shareholders' Agreement remains in full force and effect, except (i) between June 1 and June 30, 2014 and between January 15 and February 15, 2015; and (ii) during certain periods in case the Italian shareholders of TELCO, S.p.A. request the entity's spin-off.

Until the date of preparation of the Quarterly Information (ITR) the approval required to implement the transactions agreed on September 24, 2013 by Telefónica S.A. and other shareholders of Italian society TELCO, S.p.A. has not been obtained.

On December 4, 2013, the CADE announced the following decisions:

1) Approve, subject to the limitations described below, the acquisition, by Telefónica S.A., of the total interest held by Portugal Telecom, SGPS SA and PT Móveis – Serviços de Telecomunicações, SGPS, SA (PT) in Brasilcel NV, which controlled Brazilian mobile telecommunications operator Vivo Participações S.A. (Vivo Part.).

The transaction has been approved by ANATEL and its completion (requiring no prior approval from CADE at the time) took place immediately after approval from ANATEL, on September 27, 2010.

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The limitations imposed by CADE on its decision are as follow:

- a) a new shareholder share control over Vivo Part. with Telefónica S.A., adopting the same conditions applied to PT when it held an interest in Brasilcel NV., or

- b) Telefónica S.A. shall cease to have, either directly or indirectly, an equity interest in TIM Participações S.A.

- 2) Impose a R\$15 million fine on Telefónica S.A. for violating the will and purpose of the agreement executed by and between Telefónica S.A. and CADE, as a requirement to approve the initial purchase transaction of Telecom Italia in 2007, due to the subscription and payment, by Telefónica S.A., of TELCO S.p.A. nonvoting shares in the context of its recent capital increase. This decision also requires Telefónica S.A. to dispose of its nonvoting shares held in TELCO S.p.A.

The deadline for compliance with the conditions and obligations imposed by CADE in both decisions were classified as confidential by CADE.

At December 13, 2013, Telefónica S.A. published a material news release regarding the decisions made by CADE in the meeting held on December 4, 2013, stating that it considered the measures imposed by that agency to be unreasonable, thus considering the possibility of starting applicable legal proceedings.

In this context, and in order to strengthen its firm commitment to the obligations previously assumed by Telefónica S.A. to keep away from Telecom Italia's business in Brazil, Telefónica S.A. pointed out, in a relevant fact release that Mr. César Alierta Izuel and Mr. Julio Linares López had decided to resign with immediate effect, from the position of Directors at Telecom Italia. Additionally, Mr. Julio Linares López decided to resign, with immediate effect, from his position on the list presented by TELCO S.p.A. for a

potential re-election to the Board of Directors of Telecom Italia.

Likewise, Telefónica S.A., notwithstanding the rights defined in the Shareholders' Agreement of TELCO S.p.A, stated in a material news release it decided not to exercise, for now, its right to appoint or suggest two Directors at Telecom Italia.

2. BASIS OF PREPARATION AND PRESENTATION OF QUARTERLY INFORMATION

The Company's quarterly information for the three-month period ended March 31, 2014 is presented in thousands of reais (unless otherwise stated) and was prepared under a going concern assumption.

This quarterly information compares the quarters ended March 31, 2014 and 2013, except for balance sheets that compare the positions at March 31, 2014 with December 31, 2013.

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In order to better present and compare the figures of the consolidated income statements for the quarters ended March 31, 2014 and 2013, certain reclassifications were made among the groups of “Cost of sales and services”, “Selling expenses”, “General and administrative expenses” and “Other operating expenses”, as follows:

| | Income statement at 03/31/13, disclosed at 03/31/13 | Reclassifications | Income statement at 03/31/13, disclosed at 03/31/14 |
|--|--|--------------------------|--|
| Net operating revenue | 8,555,484 | - | 8,555,484 |
| Cost of sales and services | (4,409,574) | 3,112 | (4,406,462) |
| Gross profit | 4,145,910 | 3,112 | 4,149,022 |
| Selling expenses | (2,163,553) | (12,455) | (2,176,008) |
| General and administrative expenses | (618,024) | 5,495 | (612,529) |
| Other operating income | 177,514 | - | 177,514 |
| Other operating expenses | (191,520) | 3,848 | (187,672) |
| Equity pickup | (446) | - | (446) |
| Income before financial income (expenses) | 1,349,881 | - | 1,349,881 |
| Financial income | 365,120 | - | 365,120 |
| Financial expenses | (381,851) | - | (381,851) |
| Income before taxes | 1,333,150 | - | 1,333,150 |
| Income and social contribution taxes | (522,975) | - | (522,975) |
| Net income for the period | 810,175 | - | 810,175 |

On account of the net assets received in the corporate restructuring process on July 1, 2013, described in Note 1c), the individual information at March 31, 2014 and 2013 is not comparable.

The individual Quarterly Information (ITR) was prepared and is presented in accordance with accounting practices adopted in Brazil, which comprise the rules issue by the Brazilian Securities and Exchange Commission (CVM) and CPC 21 - Interim Financial Reporting, issued by the Brazilian FASB (CPC), which are in conformity with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), except for investments in subsidiaries, which are measured by the equity method, while for IFRS purposes it would be at cost or fair value.

The consolidated Quarterly information (ITR) was prepared and is presented in accordance with CPC 21 and IAS 34 - Interim Financial Reporting, issued by the IASB, and CVM rules.

At the meeting held on April 28, 2014, the Executive Board authorized the issue of this quarterly information, which was ratified by the Board of Directors at a meeting held on May 7, 2014.

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

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(In thousands of reais)

Information on investees at March 31, 2014 and December 31, 2013 is described below:

Telefônica Data S.A. (TData): Wholly-owned subsidiary of the Company and headquartered in Brazil, this entity is engaged in the rendering and operation telecommunications services; provide value added services (SVAs); provide integrated business solutions in telecommunications and related activities; manage the provision of technical assistance and maintenance services of telecommunications equipment and network, consulting services regarding telecommunications solutions and related activities, and design, implementation and installation of telecommunication-related projects; sell and lease telecommunications equipment, products and services, value-added services or any other related services, provided or supplied by third parties; provide third parties with telecommunications infrastructure; manage and/or develop activities that are necessary or useful for performing such services in accordance with applicable law; provide business trading services in general and provide technical support services in IT, including consulting, installation and maintenance of goods, applications and services, licensing or sub licensing of any kind of software, and storage and management of data and information.

Aliança Atlântica Holding B.V. (Aliança): Jointly-controlled subsidiary, headquartered in Amsterdam, Netherlands, this entity has a 50% interest held by Telefônica Brasil and cash generated from sale of Portugal Telecom shares in June 2010. Through May 8, 2012, the Company held equity interest in Zon Multimédia, a Portugal Telecom group company that renders services involving pay television, Internet, distribution of audiovisual contents, cinema and telecommunication services. This equity interest was disposed of on May 8, 2012.

Companhia AIX de Participações (AIX): Jointly-controlled subsidiary, headquartered in Brazil, this entity is engaged in holding interest in Refibra Consortium, and in performing activities related to the direct and indirect operation of activities related to the construction, completion and operation of underground networks for optical fiber ducts.

Companhia ACT de Participações (ACT): Jointly-controlled subsidiary, headquartered in Brazil, this entity is engaged in holding interest in Refibra Consortium, and in performing activities related to the rendering of technical support services for the preparation of projects and completion of networks, by means of studies

required to make them economically feasible, and monitor the progress of Consortium-related activities.

Direct and indirect subsidiaries and jointly-controlled subsidiaries, as well as the percentage of interest held by the Company as of March 31, 2014 and December 31, 2013 are as follows:

| <u>Investees</u> | Direct ownership interest | | Total interest held |
|--|---------------------------|---------------|---------------------|
| | Investor | Interest held | |
| <u>Wholly-owned subsidiary</u> | | | |
| TData | Telefônica Brasil | 100.00% | 100.00% |
| <u>Jointly-controlled subsidiaries, not consolidated</u> | | | |
| Aliança | Telefônica Brasil | 50.00% | 50.00% |
| AIX | Telefônica Brasil | 50.00% | 50.00% |
| ACT | Telefônica Brasil | 50.00% | 50.00% |

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This Quarterly Information (ITR) was prepared in accordance with accounting principles, practices and criteria consistent with those adopted in the preparation of the financial statements for the financial year ended December 31, 2013, in addition to the new pronouncements, interpretations and amendments that became effective from January 1, 2014, as follows:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27): The amendments will be effective for annual periods beginning on or after January 1, 2014, providing an exception to the consolidation requirements for a reporting entity that meets the definition of an investment entity under IFRS 10. This exception requires an investment entity to account for its investments in subsidiaries at fair value in profit or loss. The application of these amendments does not entail impacts on the Company's financial position, given that none of its subsidiaries qualifies as an investment entity.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32: These amendments clarify the meaning of "currently has a legally enforceable right to set off the recognized amounts" and the criteria that would qualify for settlement the settlement mechanisms of clearing house systems that are not simultaneous. These amendments will become effective for annual periods beginning on or after January 1, 2014. The application of these amendments does not entail significant impacts on the Company's financial position.

IAS 36 Impairment of Assets - Amendment to IAS 36: These amendments eliminate unintended consequences of IFRS 13 Fair Value Measurement on disclosures required by IAS 36. In addition, these amendments require the disclosure of recoverable amounts of assets of Cash Generating Units (CGU) for which a provision for impairment has been recognized over the period. The application of these amendments does not impact the Company's disclosures.

IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting - Amendment to IAS 39 - This amendment introduces a relief regarding discontinuance of hedge accounting where a derivative, which is designated as hedging instrument, is novated if specific conditions are met. These amendments will become effective for annual periods beginning on or after January 1, 2014. The application of this amendment does not entail significant impacts on the Company's financial position.

IFRIC 21 - Levies: IFRIC 21 provides guidance on when to recognize a liability for a tax or levy when the obligating event occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognized before the specified minimum threshold is reached. IFRIC 21 becomes effective for annual periods ending on or after January 1, 2014. The application of this standard does not entail significant impacts on the Company's financial position.

On the preparation date of this quarterly information, the following IFRS amendments had been published; however, their application was not compulsory:

IFRS 2 Share-based payment: These amendments changed the settings relating to the purchase conditions and its implementation is effective beginning on or after July 1, 2014. The Company does not believe that these amendments may significantly impact its financial position.

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IFRS 3 Business combination: The amendments changed the accounting for contingent consideration in a business combination. Contingent consideration on acquisition of a business that is not classified as equity is subsequently measured at fair value through profit or loss, whether or not included in the scope of IFRS 9 Financial Instruments. These changes are effective for new business combinations after July 1, 2014. The Company considers the application of these changes to any business combinations that occur beginning on or after 1 July 2014.

IFRS 8 Operating Segments: The changes are related to the aggregation of operating segments, which can be combined / aggregated whether they are in accordance with the criteria of the rule, in other words, if the segments have similar economic characteristics and are similar in other qualitative aspects. If they are combined, the entity shall disclose the economic characteristics used to assess whether the segments are similar. These amendments will become effective beginning on or after July 1, 2014. Considering the fact that the Company and its subsidiary operate in a sole operating segment, a significant on their financial position is not expected.

IFRS 9 Financial Instruments: IFRS 9, as issued, is the first step in IASB's project to replace IAS 39 and applies to classification and measurement of financial assets and liabilities as defined by IAS 39. Initially, the pronouncement would become effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9: Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, postponed the effective date of IFRS 9 to January 1, 2018. In the subsequent steps, IASB will tackle issues such as hedge accounting and provision for impairment of financial assets. Adoption of the first step of IFRS 9 will affect the classification and measurement of the Company's financial assets, but will have no impact on the classification and measurement of its financial liabilities. The Company will quantify such effects together with the effects from other phases of IASB's project once the final consolidated standard is issued.

IFRS 13 Fair Value Measurement: The amendment is prospectively after July 1, 2014. The change is related to the application of the exception financial assets portfolio, financial liabilities and other contracts. The Company and its subsidiary will evaluate the effect of implementation of new business beginning on or after July 1, 2014.

IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets: The amendment to IAS 16.35 (a) and IAS 38.80 (a) clarifies that a revaluation can be made as follows: i) adjust the gross carrying amount of the asset at market value or, ii) determine the market value and adjust the gross carrying amount proportionally, so that the resulting carrying amount is equal to the market value. IASB also clarified that the accumulated depreciation / amortization is the difference between the gross carrying amount and the carrying amount of the asset (i.e. gross book value - accumulated depreciation / amortization = book value). The amendment to IAS 16.35 (b) and IAS 38.80 (b) clarifies that the accumulated depreciation / amortization is eliminated so that the gross carrying amount and the book value is equal to market value. The changes will become effective beginning on or after 1 July 2014 retrospectively. Implementation of these changes have no impact on the financial or operating positions of the Company and its subsidiary at the time. Whereas the reassessment of property and equipment and intangible assets is not allowed in Brazil, the Company does not expect impact on its financial position.

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IAS 24 Related Party Disclosures: The amendment clarifies that an entity's providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. In addition, an entity that uses a management entity shall disclose the expenses incurred by management services. The changes will become effective beginning on or after 1 July 2014 retrospectively. The Company does not expect these amendments significantly impacting its financial position.

IAS 40 Investment Property: This amendment clarifies the relationship between the definitions of IFRS 3 and IAS 40 on the classification of the investment property or owner-occupied property. The description of ancillary services in IAS 40 that differentiates between investment properties and owner occupied property (IFRS 3) is used to determine whether the transaction is a purchase of an asset or a business combination. This amendment is effective prospectively beginning on or after 1 July 2014. The Company will evaluate any possible impact in case of transactions occur after the effective date.

The Company does not early adopt any pronouncement, interpretation or amendment that has been issued, whose application is not compulsory.

3. CASH AND CASH EQUIVALENTS

| | Company | | Consolidated | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Cash and bank checking accounts | 39,934 | 101,094 | 46,785 | 101,921 |
| Short-term investments | 3,840,973 | 6,210,205 | 4,497,736 | 6,442,015 |
| Total | 3,880,907 | 6,311,299 | 4,544,521 | 6,543,936 |

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

In addition, the Company has short-term investments pledged as collateral for loans and legal proceedings in the consolidated amounts of R\$108,365 at March 31, 2014 (R\$106,455 at December 31, 2013) recorded in noncurrent assets.

4. TRADE ACCOUNTS RECEIVABLE, NET

| | Company | | Consolidated | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Billed amounts | 4,305,631 | 4,084,617 | 4,766,175 | 4,581,188 |
| Unbilled amounts | 1,792,276 | 1,777,871 | 1,906,815 | 1,890,485 |
| Interconnection amounts | 869,346 | 872,678 | 854,069 | 859,894 |
| Gross accounts receivable | 6,967,253 | 6,735,166 | 7,527,059 | 7,331,567 |
| Provision for impairment | (1,095,581) | (1,033,665) | (1,346,258) | (1,271,622) |
| Total | 5,871,672 | 5,701,501 | 6,180,801 | 6,059,945 |
| Current | 5,702,497 | 5,541,023 | 5,914,608 | 5,802,859 |
| Noncurrent | 169,175 | 160,478 | 266,193 | 257,086 |

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The aging list of trade accounts receivable, net of the provision for impairment, is as follows:

| | Company | | Consolidated | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Falling due | 4,250,267 | 4,131,549 | 4,509,933 | 4,398,791 |
| Overdue from 1 to 31 days | 827,949 | 756,787 | 849,879 | 795,389 |
| Overdue from 31 to 60 days | 293,589 | 266,192 | 300,264 | 289,783 |
| Overdue from 61 to 90 days | 188,552 | 162,436 | 193,406 | 166,105 |
| Overdue from 91 to 120 days | 77,427 | 59,244 | 83,167 | 62,122 |
| Overdue above 120 days | 233,888 | 325,293 | 244,152 | 347,755 |
| Total | 5,871,672 | 5,701,501 | 6,180,801 | 6,059,945 |

At March 31, 2014 and December 31, 2013, no customer represented more than 10% of trade accounts receivable, net.

Changes in the provision for impairment are as follows:

| | Company | Consolidated |
|-------------------------------------|--------------------|--------------------|
| Balance at December 31, 2013 | (1,033,665) | (1,271,622) |
| Additions, net (Note 23) | (196,448) | (207,860) |
| Write-offs | 134,532 | 133,224 |
| Balance at March 31, 2014 | (1,095,581) | (1,346,258) |

At March 31, 2014, the consolidated balance of noncurrent trade accounts receivable includes R\$169,175 (R\$160,478 at December 31, 2013), referring to the new business model for resale of goods to legal entities, whose days sales outstanding is up to 24 months. At March 31, 2014, the amount of unrecognized financial income (present value adjustment) amounted to R\$19,688 (R\$18,174 at December 31, 2013).

TData has a product called "Soluciona TI," which consists of leasing IT equipment to small- and medium-sized enterprises, for which TData receives fixed installments over the lease term. Considering the contractual terms, the Company classified this product as Finance Lease. At March 31, 2014, the consolidated balance of noncurrent trade accounts receivable includes R\$97,018 (R\$96,608 at December 31, 2013) related to this product.

The consolidated balance of current and noncurrent trade accounts receivable, related to finance lease, comprises the following effects:

| | Consolidated | |
|---------------------------------|----------------|----------------|
| | 03/31/2014 | 12/31/2013 |
| Nominal value receivable | 338,505 | 335,376 |
| Unrealized financial income | 6,478 | 7,058 |
| Present value receivable | 344,983 | 342,434 |
| Provision for impairment | (103,866) | (99,791) |
| Net amount receivable | 241,117 | 242,643 |
| Current | 144,099 | 146,035 |
| Noncurrent | 97,018 | 96,608 |

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At March 31, 2014, the aging list of trade accounts receivable referring to “Solucioná TI” product is as follows:

| | Consolidated Nominal value receivable | Present value receivable |
|---------------------------|---|-----------------------------|
| Falling due within 1 year | 241,487 | 241,487 |
| Falling due within 5 year | 97,018 | 103,496 |
| Total | 338,505 | 344,983 |

There are no unsecured net book values resulting in benefits to the lessor nor contingent payments recognized as revenue over the year.

5. INVENTORIES

| | Company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Consumer materials | 61,394 | 55,431 | 63,705 | 58,492 |
| Materials for resale (a) | 521,528 | 459,949 | 555,852 | 498,803 |
| Other inventory items | 6,457 | 6,481 | 6,457 | 6,481 |
| Gross total | 589,379 | 521,861 | 626,014 | 563,776 |
| Provision for impairment and obsolescence | (54,374) | (52,275) | (61,773) | (58,161) |
| Total | 535,005 | 469,586 | 564,241 | 505,615 |

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

Changes in the provision for impairment and obsolescence are as follows:

| | Company | Consolidated |
|-------------------------------------|-----------------|-----------------|
| Balance at December 31, 2013 | (52,275) | (58,161) |
| Additions | (5,823) | (7,336) |
| Reversals | 3,724 | 3,724 |
| Balance at March 31, 2014 | (54,374) | (61,773) |

Cost of sales, which includes amounts regarding provision for impairment and obsolescence, is stated in Note 23.

6. DEFERRED TAXES AND TAXES RECOVERABLE

6.1 Taxes recoverable

Telefônica Brasil S.A.

Notes to Quarterly Information

Three-month period ended March 31, 2014

(In thousands of reais)

| | Company | | Consolidated | |
|--|------------------|------------------|------------------|------------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| State VAT (ICMS) (a) | 1,966,267 | 1,908,754 | 1,969,642 | 1,911,703 |
| Income and social contribution taxes recoverable (b) | 268,189 | 374,096 | 272,441 | 377,704 |
| Taxes withheld at source (c) | 61,833 | 174,015 | 77,483 | 188,659 |
| PIS and COFINS | 69,055 | 62,449 | 70,730 | 63,816 |
| Other taxes | 25,356 | 17,871 | 28,511 | 18,468 |
| Total | 2,390,700 | 2,537,185 | 2,418,807 | 2,560,350 |
| Current | 1,968,530 | 2,168,797 | 1,996,637 | 2,191,962 |
| Noncurrent | 422,170 | 368,388 | 422,170 | 368,388 |

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

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

(c) These refer to credits on Withholding Income Tax (IRRF) on short-term investments, interest on equity and other, which are used as deduction in operations for the period and social contribution tax withheld at source on services provided to public agencies.

6.2 Deferred taxes

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

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

| | Company | | Consolidated | |
|--|------------------|------------------|------------------|------------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| <u>Deferred assets</u> | | | | |
| Income and social contribution tax losses (a) | 31,930 | 122,321 | 145,842 | 262,915 |
| Income and social contribution taxes on temporary differences (c) | | | | |
| Provisions for labor, tax and civil contingencies | 1,395,838 | 1,322,244 | 1,400,983 | 1,327,288 |
| Post-employment benefit plans | 146,462 | 143,537 | 146,462 | 143,537 |
| Provision for impairment | 255,007 | 241,203 | 260,610 | 245,556 |
| Provision for losses on modem and other property and equipment items | 173,883 | 164,518 | 175,798 | 166,174 |
| Profit sharing | 37,104 | 71,287 | 37,311 | 71,948 |
| Accelerated accounting depreciation | 149,709 | 154,181 | 149,709 | 154,181 |
| Provision for impairment - inventories | 11,209 | 10,884 | 13,725 | 12,885 |
| Provision for customer loyalty program | 31,188 | 31,199 | 31,188 | 31,199 |
| Trade accounts payable and other provision | 417,858 | 338,458 | 489,821 | 398,956 |
| Income and social contribution taxes on other temporary differences | 155,272 | 157,988 | 154,445 | 157,313 |
| Total deferred assets | 2,805,460 | 2,757,820 | 3,005,894 | 2,971,952 |

Telefônica Brasil S.A.

Notes to Quarterly Information

Three-month period ended March 31, 2014

(In thousands of reais)

Deferred liabilities

| | | | | |
|---|--------------------|--------------------|--------------------|--------------------|
| Merged tax credit (b) | (337,535) | (337,535) | (337,535) | (337,535) |
| Income and social contribution tax losses (c) | | | | |
| Technology Innovation Law | (290,880) | (308,490) | (290,880) | (308,490) |
| Customer Portfolio | (440,742) | (461,870) | (440,742) | (461,870) |
| Trademarks and patents | (472,391) | (479,548) | (472,391) | (479,548) |
| Licenses | (799,756) | (719,780) | (799,756) | (719,780) |
| Effects of goodwill generated upon merger of Vivo Part. | (605,138) | (568,338) | (605,138) | (568,338) |
| Vivo Part. Goodwill | (533,739) | (480,366) | (533,739) | (480,366) |
| Income and social contribution taxes on other temporary differences | (110,660) | (124,527) | (112,923) | (128,365) |
| Total deferred liabilities | (3,590,841) | (3,480,454) | (3,593,104) | (3,484,292) |
| Total noncurrent assets (liabilities), net | (785,381) | (722,634) | (587,210) | (512,340) |

Deferred tax assets (liabilities), net

Represented in balance sheet as follows:

| | | | | |
|---|------------------|------------------|------------------|------------------|
| Noncurrent deferred tax asset, net | - | - | 198,171 | 210,294 |
| Noncurrent deferred tax liabilities, net | (785,381) | (722,634) | (785,381) | (722,634) |

Deferred taxes were determined considering future realization, as follows:

a) Income and social contribution tax losses: this represents the amount recorded by the Company and its subsidiary which, in accordance with Brazilian tax legislation, may be offset to the limit of 30% of the tax bases computed for the following years, with no expiry date.

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

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

Changes in deferred income and social contribution tax assets and liabilities are as follows:

Telefônica Brasil S.A.

Notes to Quarterly Information

Three-month period ended March 31, 2014

(In thousands of reais)

| | Income and social contribution tax losses | Company Income and social contribution taxes on temporary differences | Total | Income and social contribution tax losses | Consolidated Income and social contribution taxes on temporary differences | Total |
|---|--|---|------------------|--|--|------------------|
| <u>Deferred tax assets</u> | | | | | | |
| Balance at December 31, 2013 | 122,321 | 2,635,499 | 2,757,820 | 262,915 | 2,709,037 | 2,971,952 |
| Provision | - | 182,266 | 182,266 | - | 193,003 | 193,003 |
| Write-offs and realizations | (90,391) | (44,235) | (134,626) | (117,073) | (41,988) | (159,061) |
| Balance at March 31, 2014 | 31,930 | 2,773,530 | 2,805,460 | 145,842 | 2,860,052 | 3,005,894 |

Deferred tax
liabilities

| | Company | Consolidated |
|---|--------------------|--------------------|
| Balance at December 31, 2013 | (3,480,454) | (3,484,292) |
| Provision | (169,898) | (169,898) |
| Write-offs and realizations | 59,762 | 61,337 |
| Comprehensive income (loss) | (251) | (251) |
| Balance at March 31, 2014 | (3,590,841) | (3,593,104) |

The table below presents deferred income tax and social contribution for items charge or credited directly in equity at March 31, 2014 and 2013.

| | Company | | Consolidated | |
|---|--------------|--------------|--------------|--------------|
| | 03/31/2014 | 03/31/2013 | 03/31/2014 | 03/31/2013 |
| Unrealized losses in investments available for sale | 440 | 3,997 | 440 | 3,997 |
| Actuarial gains (losses) and limitation effect of the surplus plan assets | - | - | - | 221 |
| Gains (losses) on derivative transactions | (691) | - | (691) | 1,518 |
| Total | (251) | 3,997 | (251) | 5,736 |

7. JUDICIAL DEPOSITS AND GARNISHMENTS

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

| | Company | | Consolidated | |
|----------------------|------------------|------------------|------------------|------------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Judicial deposits | | | | |
| Labor | 1,040,625 | 1,030,468 | 1,046,279 | 1,036,055 |
| Tax | 2,459,881 | 2,348,179 | 2,476,954 | 2,364,913 |
| Civil and regulatory | 880,488 | 852,972 | 881,577 | 853,980 |
| Total | 4,380,994 | 4,231,619 | 4,404,810 | 4,254,948 |
| Garnishments | 105,590 | 96,130 | 107,004 | 97,572 |
| Total | 4,486,584 | 4,327,749 | 4,511,814 | 4,352,520 |
| Current | 219,758 | 204,165 | 219,758 | 204,165 |
| Noncurrent | 4,266,826 | 4,123,584 | 4,292,056 | 4,148,355 |

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Notes to Quarterly Information

Three-month period ended March 31, 2014

(In thousands of reais)

At March 31, 2014, the Company and its subsidiary had a number of tax-related judicial deposits, reaching the consolidated amount of R\$2,476,954 (R\$2,364,913 at December 31, 2013). Detailed information on the matters from which the main deposits stem, is in Note 18.

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

- Federal contribution taxes on gross revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS)

Company and subsidiary are involved in disputes related to: (i) claim filed for overpayment of tax credits, not recognized by tax authorities; (ii) tax debt arising from underpayment due to differences in ancillary statements (Federal Tax Debt and Credit Return – DCTF); and (iii) disputes referring to changes in rates and increase in tax bases introduced by Law No. 9,718/98.

At March 31, 2014, consolidated judicial deposits amounted to R\$31,588 (R\$31,162 at December 31, 2013).

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

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

At March 31, 2014, consolidated judicial deposits amounted to R\$146,840 (R\$144,684 at December 31, 2013).

- Telecommunications Inspection Fund (FISTEL)

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

At March 31, 2014, consolidated judicial deposits amounted to R\$880,022 (R\$864,487 at December 31, 2013).

- Withholding Income Tax (IRRF)

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

At March 31, 2014, consolidated judicial deposits amounted to R\$60,279 (R\$59,343 at December 31, 2013).

Telefônica Brasil S.A.

Notes to Quarterly Information

Three-month period ended March 31, 2014

(In thousands of reais)

- Corporate Income Tax (IRPJ)

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

At March 31, 2014, consolidated judicial deposits amounted to R\$28,925 (R\$28,456 at December 31, 2013).

- Contribution to Empresa Brasil de Comunicação (EBC)

Sinditelebrasil (Union of Telephony and Mobile and Personal Services) filed an injunction challenging the Contribution to Foster Public Radio Broadcasting payable to EBC, introduced by Law No. 11,652/2008. The Company and its subsidiary, as union members, made judicial deposits referring to that contribution.

At March 31, 2014, consolidated judicial deposits amounted to R\$632,491 (R\$514,127 at December 31, 2013).

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

Company is involved in disputes related to: (i) SAT and funds to third parties (INCRA and SEBRAE); (ii) joint responsibility for contract labor; and (ii) difference in SAT rate (from 1% to 3%).

At March 31, 2014, consolidated judicial deposits amounted to R\$97,893 (R\$96,736 at December 31, 2013).

- Unemployment Compensation Fund (FGTS)

The Company filed an injunction in order to represent its right not to pay surtax of 0.5% and 10% for FGTS introduced by Supplementary Law No. 110/2001 levied on deposits made by employers (the proceedings did not result in any reduction of FGTS deposits mad by the Company on behalf of its employees).

At March 31, 2014, consolidated judicial deposits amounted to R\$72,062 (R\$70,697 at December 31, 2013).

- Tax on Net Income (ILL)

The Company filed an injunction in order to represent its right to offset amounts unduly paid for ILL purposes against future IRPJ payments.

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

At March 31, 2014, consolidated judicial deposits amounted to R\$52,381 (R\$51,648 at December 31, 2013).

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Notes to Quarterly Information

Three-month period ended March 31, 2014

(In thousands of reais)

- Universal Telecommunication Services Fund (FUST)

Company and subsidiary filed an injunction in order to have their right declared not to include expenses with interconnection (ITX) and Industrial Use of Dedicated Line (EILD) in FUST tax base for landline phone carriers, according to Abridgment No. 7, of December 15, 2005, as it does not comply with the provisions contained in sole paragraph of article 6 of Law No. 9,998, of August 17, 2000.

At March 31, 2014, consolidated judicial deposits amounted to R\$379,480 (R\$371,373 at December 31, 2013).

- State Value-Added Tax (ICMS)

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

At March 31, 2014, consolidated judicial deposits amounted to R\$38,167 (R\$38,259 at December 31, 2013).

- Other taxes, charges and contributions

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

At March 31, 2014, consolidated judicial deposits amounted to R\$56,826 (R\$93,941 at December 31, 2013).

8. PREPAID EXPENSES

| | Company | | Consolidated | |
|---------------------------------------|------------------|----------------|------------------|----------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Fistel rate (a) | 799,844 | - | 799,844 | - |
| Advertising and publicity | 142,068 | 167,873 | 142,068 | 167,873 |
| Rent | 22,305 | 35,168 | 22,305 | 35,168 |
| Insurance | 22,363 | 29,212 | 23,820 | 29,733 |
| Financial charges | 8,559 | 11,568 | 8,559 | 11,568 |
| Software maintenance, taxes and other | 47,846 | 35,801 | 50,244 | 38,308 |
| Total | 1,042,985 | 279,622 | 1,046,840 | 282,650 |
| Current | 1,017,072 | 254,743 | 1,020,583 | 257,286 |
| Noncurrent | 25,913 | 24,879 | 26,257 | 25,364 |

(a) This refers to Inspection and Operation Fees for year 2013 which were paid in March 2014 and will be amortized until the end of the year.

Telefônica Brasil S.A.

Notes to Quarterly Information

Three-month period ended March 31, 2014

(In thousands of reais)

9. OTHER ASSETS

| | Company | | Consolidated | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Advances to employers and suppliers | 91,692 | 64,101 | 92,816 | 64,991 |
| Receivables from related parties | 482,015 | 297,198 | 114,711 | 97,748 |
| Subsidy on handset sales | 23,885 | 55,716 | 23,885 | 55,716 |
| Receivables from suppliers | 74,909 | 139,563 | 88,330 | 139,563 |
| Private pension plan surplus | 18,490 | 17,769 | 18,633 | 17,909 |
| Other realizable assets | 93,727 | 86,492 | 94,669 | 92,037 |
| Total | 784,718 | 660,839 | 433,044 | 467,964 |
| Current | 639,897 | 533,272 | 288,003 | 340,171 |
| Noncurrent | 144,821 | 127,567 | 145,041 | 127,793 |

10. INVESTMENTS

A summary of significant financial data of Company investees is as follows.

a) Information on investees

| TData (a) | At March 31, 2014 | | At December 31, 2013 | | |
|-----------|-------------------|---------|----------------------|---------|---------|
| | ACT (b) | AIX (b) | TData (a) | ACT (b) | AIX (b) |

| | | | | Aliança Atlântica (b) | | | Aliança Atlântica (b) | |
|--------------------------|------------------|-----------|---------------|-----------------------|------------------|-----------|-----------------------|----------------|
| Assets | | | | | | | | |
| Current assets | 1,385,714 | 11 | 10,696 | 131,825 | 1,090,339 | 11 | 10,515 | 139,414 |
| Noncurrent assets | 422,723 | | 12,244 | - | 420,253 | - | 12,441 | - |
| Total assets | 1,808,437 | 11 | 22,940 | 131,825 | 1,510,592 | 11 | 22,956 | 139,414 |
| Liabilities | | | | | | | | |
| Current liabilities | 841,901 | 1 | 2,776 | 71 | 688,480 | 1 | 2,950 | 2,200 |
| Noncurrent liabilities | 43,817 | | 4,290 | - | 43,823 | - | 6,076 | - |
| Equity | 922,719 | 10 | 15,874 | 131,754 | 778,289 | 10 | 13,930 | 137,214 |
| Total liabilities | 1,808,437 | 11 | 22,940 | 131,825 | 1,510,592 | 11 | 22,956 | 139,414 |
| Equity investment | | | | | | | | |
| At March 31, 2014 | 100.00% | 50.00% | 50.00% | 50.00% | 100.00% | 50.00% | 50.00% | 50.00% |
| At December 31, 2013 | 100.00% | 50.00% | 50.00% | 50.00% | 100.00% | 50.00% | 50.00% | 50.00% |

(a) Wholly-owned subsidiaries.

(b) Jointly-controlled subsidiaries.

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(In thousands of reais)

b) Changes in investments

| | Balances at 12/31/2013 | Equity pickup | Other comprehensive income (loss) | Balances at 03/31/2014 |
|---|---------------------------|----------------|---|---------------------------|
| <u>Equity investments</u> | 853,866 | 145,435 | (2,763) | 996,538 |
| <u>Wholly-owned subsidiaries</u> | 778,289 | 144,430 | - | 922,719 |
| TData | 778,289 | 144,430 | - | 922,719 |
| <u>Jointly-controlled subsidiaries</u> | 75,577 | 1,005 | (2,763) | 73,819 |
| Aliança | 68,607 | 33 | (2,763) | 65,877 |
| AIX | 6,965 | 972 | - | 7,937 |
| ACT | 5 | - | - | 5 |
| <u>Goodwill (a)</u> | 212,058 | - | - | 212,058 |
| <u>Other investments</u> | 10,772 | - | (1,295) | 9,477 |
| Other investments (b) | 10,772 | - | (1,295) | 9,477 |
| Total investments in the Company | 1,076,696 | 145,435 | (4,058) | 1,218,073 |
| Aliança | 68,607 | 33 | (2,763) | 65,877 |
| AIX | 6,965 | 972 | - | 7,937 |
| ACT | 5 | - | - | 5 |
| Other investments (b) | 10,772 | - | (1,295) | 9,477 |
| Total consolidated investments | 86,349 | 1,005 | (4,058) | 83,296 |

(a) Goodwill from partial spin-off of the company Spanish e Figueira, which was reversed to the Company upon merger with Telefonica Data Brasil Holding S.A. (TDBH) in 2006.

(b) Other investments are measured at fair value.

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(In thousands of reais)

11. PROPERTY, PLANT AND EQUIPMENT, NET

a) Breakdown

At March 31, 2014

At March 31, 2014

| | P&E cost | Company Accumulated depreciation | Net balance | P&E cost | Consolidated Accumulated depreciation | Net balance |
|--|-------------------|--|-------------------|-------------------|---|-------------------|
| Switching equipment | 16,623,459 | (14,310,337) | 2,313,122 | 16,630,688 | (14,317,261) | 2,313,427 |
| Transmission equipment and media | 34,732,642 | (26,179,814) | 8,552,828 | 34,733,296 | (26,180,246) | 8,553,050 |
| Terminal equipment/modems | 10,101,249 | (8,635,381) | 1,465,868 | 10,133,728 | (8,655,960) | 1,477,768 |
| Infrastructure | 13,087,527 | (9,640,251) | 3,447,276 | 13,098,406 | (9,648,979) | 3,449,427 |
| Land | 314,558 | - | 314,558 | 314,558 | - | 314,558 |
| Other property and equipment | 3,195,736 | (2,612,087) | 583,649 | 3,329,284 | (2,713,794) | 615,490 |
| Provisions for loss | (164,651) | - | (164,651) | (166,654) | - | (166,654) |
| Assets and construction in progress | 1,691,919 | - | 1,691,919 | 1,717,279 | - | 1,717,279 |
| Total | 79,582,439 | (61,377,870) | 18,204,569 | 79,790,585 | (61,516,240) | 18,274,345 |

At December 31, 2013

Company

Consolidated

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| | P&E cost | Accumulated depreciation | Net balance | P&E cost | Accumulated depreciation | Net balance |
|-------------------------------------|-------------------|--------------------------|-------------------|-------------------|--------------------------|-------------------|
| Switching equipment | 16,544,122 | (14,179,182) | 2,364,940 | 16,551,351 | (14,186,061) | 2,365,290 |
| Transmission equipment and media | 34,246,583 | (25,814,277) | 8,432,306 | 34,247,236 | (25,814,693) | 8,432,543 |
| Terminal equipment/modems | 10,732,328 | (9,276,479) | 1,455,849 | 10,763,473 | (9,295,416) | 1,468,057 |
| Infrastructure | 12,949,046 | (9,482,838) | 3,466,208 | 12,959,925 | (9,491,430) | 3,468,495 |
| Land | 314,558 | - | 314,558 | 314,558 | - | 314,558 |
| Other property and equipment | 3,181,239 | (2,582,931) | 598,308 | 3,277,142 | (2,682,185) | 594,957 |
| Provisions for loss | (168,124) | - | (168,124) | (169,979) | - | (169,979) |
| Assets and construction in progress | 1,913,860 | - | 1,913,860 | 1,967,726 | - | 1,967,726 |
| Total | 79,713,612 | (61,335,707) | 18,377,905 | 79,911,432 | (61,469,785) | 18,441,647 |

b) Changes

| | Company | | | | | | | | Total |
|--------------------------------------|---------------------|----------------------------------|---------------------------|------------------|----------------|----------------|-------------------------|-------------------------------------|-------------------|
| | Switching equipment | Transmission equipment and media | Terminal equipment/modems | Infrastructure | Land | Other P&E | Provisions for loss (a) | Assets and construction in progress | |
| Balances at December 31, 2013 | 2,364,940 | 8,432,306 | 1,455,849 | 3,466,208 | 314,558 | 598,308 | (168,124) | 1,913,860 | 18,377,905 |
| Additions | 3,470 | 18,369 | 52,741 | 12,910 | - | 25,828 | - | 765,739 | 877,247 |
| Write-offs, net | (732) | (13,768) | (287) | (878) | - | (625) | 3,473 | (4,166) | (1,085) |
| Depreciation (b) | (141,641) | (400,759) | (213,294) | (169,275) | - | (50,054) | - | - | (974,969) |
| Transfers, net | 87,085 | 516,680 | 170,859 | 138,311 | - | 10,192 | - | (983,514) | (670,687) |
| Balances at March 31, 2014 | 2,313,122 | 8,552,828 | 1,465,868 | 3,447,276 | 314,558 | 583,649 | (164,651) | 1,691,919 | 18,200,085 |

| | Consolidated | | | | | | | | Total |
|--------------------------------------|---------------------|----------------------------------|---------------------------|------------------|----------------|----------------|-------------------------|-------------------------------------|-------------------|
| | Switching equipment | Transmission equipment and media | Terminal equipment/modems | Infrastructure | Land | Other P&E | Provisions for loss (a) | Assets and construction in progress | |
| Balances at December 31, 2013 | 2,365,290 | 8,432,543 | 1,468,057 | 3,468,495 | 314,558 | 594,957 | (169,979) | 1,967,726 | 18,441,647 |
| Additions | 3,470 | 18,369 | 54,075 | 12,910 | - | 35,620 | - | 755,078 | 877,247 |
| Write-offs, net | (732) | (13,764) | (287) | (878) | - | (625) | 3,325 | (4,166) | (1,085) |

| | | | | | | | | | |
|---|------------------|------------------|------------------|------------------|----------------|----------------|------------------|------------------|--------------|
| Write-offs, net | | | | | | | | | |
| Depreciation (b) | (141,684) | (400,780) | (214,937) | (169,412) | - | (52,507) | | | (97) |
| Transfers, net | 87,083 | 516,682 | 170,860 | 138,312 | - | 38,045 | | (1,001,359) | (5) |
| Balances at March 31, 2014 | 2,313,427 | 8,553,050 | 1,477,768 | 3,449,427 | 314,558 | 615,490 | (166,654) | 1,717,279 | 18,27 |

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

(b) Additions of depreciation costs and expenses are presented in "Depreciation and Amortization" in Notes 23.

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(In thousands of reais)

c) Depreciation rates

The Company and its subsidiary's property, plant and equipment are depreciated on a straight-line basis, at the following annual rates:

| | |
|----------------------------------|----------------|
| Switching equipment | 10.00 to 33.33 |
| Transmission equipment and media | 5.00 to 20.00 |
| Terminal equipment/modems | 10.00 to 66.67 |
| Infrastructure | 4,00 to 66.67 |
| Other P&E | 10.00 to 20.00 |

d) PP&E items given in guarantee

At March 31, 2014, the Company and its subsidiary had PP&E items given in guarantee for lawsuits, amounting to R\$170,816 (R\$187,025 at December 31, 2013).

e) Capitalization of borrowing costs

At March 31, 2014 and December 31, 2013, the Company did not capitalize borrowing costs, as there were no qualifying assets.

f) Reversible assets

The service concession arrangement establishes that all assets owned by the Company and that are indispensable to the provision of the services described in the referred to arrangement are considered reversible assets and are deemed to be part of the service concession assets. These assets will be automatically returned to ANATEL upon termination of the service concession arrangement, according to the regulation in force. At March 31, 2014, the residual balance of reversible assets was R\$7,041,652 (R\$7,270,327 at December 31, 2013), comprising switching and transmission equipment, terminals for public use, external energy network equipment and system and operation support equipment.

12. INTANGIBLE ASSETS, NET

a) Breakdown

| | Company | | Consolidated | |
|-------------------------|-------------------|-------------------|-------------------|-------------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Goodwill | 10,013,222 | 10,013,222 | 10,225,280 | 10,225,280 |
| Other intangible assets | 18,981,306 | 19,273,769 | 18,985,313 | 19,277,779 |
| Total | 28,994,528 | 29,286,991 | 29,210,593 | 29,503,059 |

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Breakdown of goodwill as of March 31, 2014 and December 31, 2013 is as follows:

| <u>Origin</u> | Company | Consolidated |
|---|-------------------|-------------------|
| Ajato Telecomunicação Ltda. | 149 | 149 |
| Spanish e Figueira (merged into TDBH) (a) | - | 212,058 |
| Santo Genovese Participações Ltda. (b) | 71,892 | 71,892 |
| Telefônica Televisão Participações S.A. (c) | 780,693 | 780,693 |
| Vivo Participações S. A. (d) | 9,160,488 | 9,160,488 |
| Total | 10,013,222 | 10,225,280 |

(a) Goodwill from partial spin-off of Spanish e Figueira, which was transferred to the Company upon merger with Telefonica Data

Brasil Holding S.A. (TDBH) in 2006.

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

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

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

As a consequence of the merger of companies related to goodwill described above, occurred on July 1, 2013, the Company's goodwill amounts were reclassified from "investments" to "intangible assets, net". These goodwill amounts are classified as intangible assets with indefinite useful life and are not amortized, but annually tested for impairment. It was not necessary to recognize impairment losses for the periods above.

b) Breakdown of other intangible assets

At March 31, 2014

| | Company | | | Consolidated | | |
|----------------------------|---------------------------------|-----------------------------|-------------------|---------------------------------|-----------------------------|-------------------|
| | Cost of intangible assets | Accumulated amortization | Net balance | Cost of intangible assets | Accumulated amortization | Net balance |
| Software | 10,595,234 | (8,663,832) | 1,931,402 | 10,631,973 | (8,696,564) | 1,935,409 |
| Customer portfolio | 1,990,278 | (693,977) | 1,296,301 | 1,990,278 | (693,977) | 1,296,301 |
| Trademarks and patents | 1,601,433 | (212,032) | 1,389,401 | 1,601,433 | (212,032) | 1,389,401 |
| License | 17,279,538 | (2,954,040) | 14,325,498 | 17,279,538 | (2,954,040) | 14,325,498 |
| Other intangible assets | 152,026 | (151,781) | 245 | 152,026 | (151,781) | 245 |
| Software in progress | 38,459 | - | 38,459 | 38,459 | - | 38,459 |
| Total | 31,656,968 | (12,675,662) | 18,981,306 | 31,693,707 | (12,708,394) | 18,985,313 |

At December 31, 2013

| | Company | | | Consolidated | | |
|----------------------------|---------------------------------|-----------------------------|-------------------|---------------------------------|-----------------------------|-------------------|
| | Cost of intangible assets | Accumulated amortization | Net balance | Cost of intangible assets | Accumulated amortization | Net balance |
| Software | 10,458,207 | (8,474,583) | 1,983,624 | 10,494,388 | (8,506,754) | 1,987,634 |
| Customer portfolio | 1,990,278 | (631,836) | 1,358,442 | 1,990,278 | (631,836) | 1,358,442 |
| Trademarks and patents | 1,601,433 | (190,980) | 1,410,453 | 1,601,433 | (190,980) | 1,410,453 |
| License | 17,238,795 | (2,764,229) | 14,474,566 | 17,238,795 | (2,764,229) | 14,474,566 |
| Other intangible assets | 152,026 | (151,690) | 336 | 152,026 | (151,690) | 336 |
| Software in progress | 46,348 | - | 46,348 | 46,348 | - | 46,348 |
| Total | 31,487,087 | (12,213,318) | 19,273,769 | 31,523,268 | (12,245,489) | 19,277,779 |

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c) Changes in other intangible assets

| | Company | | | | | | Total |
|--------------------------------------|------------------|--------------------|------------------------|-------------------|-------------------------|----------------------|-------------------|
| | Software | Customer portfolio | Trademarks and patents | License | Other intangible assets | Software in progress | |
| Balances at December 31, 2013 | 1,983,624 | 1,358,442 | 1,410,453 | 14,474,566 | 336 | 46,348 | 19,273,769 |
| Additions | 67,532 | - | - | - | - | 53,426 | 120,958 |
| Write-offs, net | (124) | - | - | - | - | - | (124) |
| Amortization (a) | (190,579) | (62,141) | (21,052) | (189,811) | (91) | - | (463,674) |
| Transfers, net | 70,949 | - | - | 40,743 | - | (61,315) | 50,377 |
| Balances at March 31, 2014 | 1,931,402 | 1,296,301 | 1,389,401 | 14,325,498 | 245 | 38,459 | 18,981,306 |

| | Consolidated | | | | | | Total |
|--------------------------------------|------------------|--------------------|------------------------|-------------------|-------------------------|----------------------|-------------------|
| | Software | Customer portfolio | Trademarks and patents | License | Other intangible assets | Software in progress | |
| Balances at December 31, 2013 | 1,987,634 | 1,358,442 | 1,410,453 | 14,474,566 | 336 | 46,348 | 19,277,779 |
| Additions | 68,090 | - | - | - | - | 53,426 | 121,516 |
| Write-offs, net | (125) | - | - | - | - | - | (125) |
| Amortization (a) | (191,139) | (62,141) | (21,052) | (189,811) | (91) | - | (464,234) |
| Transfers, net | 70,949 | - | - | 40,743 | - | (61,315) | 50,377 |
| Balances at March 31, 2014 | 1,935,409 | 1,296,301 | 1,389,401 | 14,325,498 | 245 | 38,459 | 18,985,313 |

(a) Additions of amortization costs and expenses are stated under "Depreciation and amortization" in Note 23.

d) Amortization rates

The Company and its subsidiary's other intangible assets are amortized on a straight-line basis, at the following annual rates:

| | |
|-------------------------|----------------|
| Software | 10.00 to 20.00 |
| Customer portfolio | 11.76 |
| Trademarks and patents | 5.13 |
| Licenses | 3.60 to 6.67 |
| Other intangible assets | 10.00 to 20.00 |

13. PERSONNEL, SOCIAL CHARGES AND BENEFITS

| | Company | | Consolidated | |
|-------------------------------|----------------|----------------|----------------|----------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Salaries and compensations | 17,753 | 20,384 | 18,449 | 21,124 |
| Social charges and benefits | 240,617 | 226,448 | 242,321 | 228,099 |
| Profit sharing | 82,144 | 180,235 | 82,752 | 182,180 |
| Share-based payment plans (a) | 14,601 | 18,698 | 14,601 | 18,698 |
| Total | 355,115 | 445,765 | 358,123 | 450,101 |
| Current | 340,514 | 427,067 | 343,522 | 431,403 |
| Noncurrent | 14,601 | 18,698 | 14,601 | 18,698 |

(a) Noncurrent liabilities refer to balances of share-based payment plans, Note 30.

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(In thousands of reais)

14. TRADE ACCOUNTS PAYABLE

| | Company | | Consolidated | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Sundry suppliers | 5,441,461 | 6,050,031 | 5,642,492 | 6,328,081 |
| Amounts to be passed on | 323,948 | 473,550 | 204,546 | 160,552 |
| Interconnection / networking | 402,499 | 425,376 | 402,499 | 425,376 |
| Total | 6,167,908 | 6,948,957 | 6,249,537 | 6,914,009 |

15. TAXES, CHARGES AND CONTRIBUTIONS

| | Company | | Consolidated | |
|--|------------------|------------------|------------------|------------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Income taxes | 48,474 | 846 | 75,589 | 22,893 |
| Income and social contribution taxes payable (a) | 48,474 | 846 | 75,589 | 22,893 |
| Indirect taxes | 1,342,702 | 1,320,511 | 1,369,427 | 1,367,345 |
| ICMS | 1,008,058 | 992,600 | 1,007,251 | 992,813 |
| PIS and COFINS | 179,680 | 195,660 | 201,534 | 235,573 |
| Fust and Funttel | 32,528 | 35,982 | 32,528 | 35,982 |
| ISS, CIDE and other taxes | 122,436 | 96,269 | 128,114 | 102,977 |
| Total | 1,391,176 | 1,321,357 | 1,445,016 | 1,390,238 |
| Current | 1,289,931 | 1,269,105 | 1,320,943 | 1,315,164 |
| Noncurrent | 101,245 | 52,252 | 124,073 | 75,074 |

(a) Income and social contribution taxes payable are stated net of payments based on estimates.

16. LOANS, FINANCING, LEASE AND DEBENTURES**16.1 - Loans, financing and finance lease**

The loans, financing and finance lease are presented at fair value when applicable:

| | Information at March 31, 2014 | | | Company/Consolidated | |
|----------------------------|-------------------------------|----------------------|------------|----------------------|------------------|
| | Currency | Annual interest rate | Maturity | 03/31/2014 | 12/31/2013 |
| Financing - BNDES | URTJLP (a) | TJLP + 0% to 9% | 06/15/2020 | 2,247,980 | 2,441,897 |
| Financing - BNDES | UMBND (b) | ECM (c) + 2.38% | 07/15/2019 | 494,847 | 505,525 |
| Financing - BNDES | R\$ | 2.5% to 8.7% | 01/15/2021 | 235,475 | 171,683 |
| Loan - <i>Mediocrédito</i> | US\$ | 4.18% to 4.47% | | - | 3,547 |
| Loans - BEI | US\$ | 4.47% | 03/02/2015 | 853,435 | 885,176 |
| Financing - BNB BBVA | R\$ | 10.00% | 10/30/2016 | 199,233 | 224,958 |
| commission | | 0.43% | 02/28/2015 | 252 | 276 |
| Finance lease | R\$ | | 08/31/2033 | 219,076 | 218,878 |
| Total | | | | 4,250,298 | 4,451,940 |
| Current | | | | 1,845,626 | 1,236,784 |
| Noncurrent | | | | 2,404,672 | 3,215,156 |

(a) Long-term interest reference unit (URTJLP) used by the Brazilian Development Bank (BNDES) as the contractual currency in financing agreements.

(b) Currency unit based on a currency basket (UMBND) used by BNDES as a contractual currency in financing agreements based on funds raised in foreign currency.

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(In thousands of reais)

(c) The Currency Basket Charge (ECM) is a rate quarterly disclosed by BNDES.

Loans and financing

Brazilian Development Bank (BNDES)

- In October 2007, a credit facility was approved for the Company to finance investment in products produced domestically. All of these funds have been withdrawn and investment thereof are proven and accepted by BNDES.
- In August 2007, a financing facility of R\$1,530,459 was taken out. Funds were released for the purpose of financing investment projects for implementation and expansion of the wireless capacity all over Brazil. Loans were released in installments and, as of December 31, 2011, no more funds were available for withdrawal. The agreement is effective for seven years. Principal will be repaid in 60 consecutive monthly installments as from September 15, 2009, after a two-year grace period.
- On October 14, 2011, a R\$3,031,110 credit facility was taken, which was adjusted to R\$2,152,098 in 2013 in view of new negotiations of credit lines and products with the bank. These funds are used in investments for expansion and improvement of the current network, implementation of the infrastructure required for new technologies, from 2011 to 2013, and construction of a data center in Tamboré (São Paulo State) and social projects.

This agreement is effective for eight years, with its grace period ending July 15, 2014, when only interest will be paid, on a quarterly basis. After this period, interest will be paid and principal repaid within 60 consecutive monthly installments.

As the interest rates applied to two of the five sub-credit lines of this financing are lower than those prevailing in the market (TJLP and TJLP + 1.48%), this operation falls within the scope of IAS 20/CPC 7. Accordingly, the government grant by BNDES, adjusted to present value and deferred over the useful life of the financed asset item, resulted in a balance amounting to R\$35,128 as of March 31, 2014 (R\$19,950 as of December 31, 2013).

Through March 31, 2014, the amount of R\$2,059,717 (R\$2,059,717 through December 31, 2013) had been released.

- In January 2010, a R\$319,927 financing facility was approved by BNDES through its Investment Maintenance Program (BNDES PSI). Funds borrowed are used to improve the network capacity through acquisition of domestic equipment previously registered with BNDES (subject to Finame), and released as the investments made are proved. Through December 31, 2012, the amount of R\$184,489 was released and the remaining balance of R\$135,438 was canceled.

As the interest rates applied thereon are lower than those observable in the market (fixed interest rates varying from 4.5% to 5.5% p.a.), this operation falls within the scope of IAS 20/CPC 7. Accordingly, the government grant by BNDES, adjusted to present value and deferred over the useful life of the financed asset item, resulted in balance amounting to R\$17,463 as of March 31, 2014 (R\$18,745 as of December 31, 2013).

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- In November 2010 and in March 2011, credit facilities amounting to R\$ 41,950 were approved. On December 28, 2012, a R\$9,493 financing line was approved, repayable within 36 months, with six-month grace period for principal, fully released as the investments made are proved. Through March 31, 2014, R\$ 51,443 (R\$ 51,443 at December 31, 2013) had been released.

These transactions also fall within the scope of IAS 20/CPC 7 because the interest rate is lower than the observable market rates (fixed interest rates varying from 2.5% to 5.5% p.a.), and government grants by BNDES, adjusted to present value, resulted as of March 31, 2014 in the amount of R\$1,565 (R\$1,858 at December 31, 2013).

- In December 2010, BNDES, through its Investment Maintenance Program (BNDES PSI), approved a R\$5,417 financing facility for the Company. At March 31, 2014, this balance amounted to R\$1,660 (R\$1,720 at December 31, 2013). This transaction also falls within the scope of IAS 20/CPC 7 because its interest rate is lower than the observable market rate (fixed interest rate of 5.5% p.a.), and the BNDES grant, adjusted to present value, resulted as of March 31, 2014 in the amount of R\$275 (R\$287 at December 31, 2013).

- On December 28, 2012, R\$21,783 and R\$331,698 financing facilities were approved at the rate of 2.5% p.a., for 60 months, with a 24-month grace period for principal, and released as the investments made are proved. Through March 31, 2014, R\$105,607 (R\$18,184 at December 31, 2013) had been released.

- On August 1, 2013, financing facilities totaling R\$4,030 were approved at annual interest rate of 3.5%, for 60 months, with a 24-month grace period for principal, and released as the investments made are proved. Through March 31, 2014, R\$4,030 (R\$4,030 at December 31, 2013) had been released.

Médiocrédito

Loan taken out in 1993 by Telecomunicações Brasileiras S.A. (Telebrás) from *Instituto Centrale per il Credito a Medio Termine (Mediocredito Centrale)* amounting to US\$45,546, with semiannual repayments, in order to build rural telephony via satellite in the state of Mato Grosso. In February 2014, this contract was fully settled by the Company.

Banco Europeu de Investimentos - BEI

A financing credit line of €250 million taken out (equivalent to US\$ 365 million at contract date). Funds were released in two installments, the first of which on December 19, 2007, and the second on February 28, 2008. The agreement will be effective for seven years, with principal amount repayment in two installments, on December 19, 2014 and March 2, 2015. Interest is collected on a semiannual basis, according to each release date. This financing is secured with a *swap* agreement that converts the currency risk into a percentage of CDI variation.

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Banco do Nordeste – BNB

On January 29, 2007 and October 30, 2008, credit facilities amounting to R\$ 247,240 and R\$ 389,000 were taken out. Funds borrowed were used to expand coverage and increase mobile network capacity in the Northeastern region of Brazil. This agreement will be effective for ten years, with principal to be repaid in 96 installments, after a two-year grace period.

Finance lease

Finance leases, whereby all risks and rewards of ownership of the leased item are substantially transferred to the Company, are capitalized at the inception of the lease at fair value of the leased asset or, if lower, the present value of minimum lease payments. Initial direct costs incurred in the transaction are added to cost, where applicable.

The Company has entered into agreements classified as finance lease as a lessee, for: i) lease of towers and rooftops, deriving from a sale and finance leaseback transaction; ii) lease of IT equipment; and iii) lease of infrastructure and transmission media deriving from construction projects in conjunction with another operator, based on optical network associated to the power transmission grid, connecting cities in the Northern region of Brazil to the domestic backbone of the Company. The residual value of referred assets remained unaltered through sale thereof and a liability corresponding to the present value of the mandatory minimum payments under said agreements was recognized.

The amounts recorded in property, plant and equipment are depreciated over the shorter of the estimated useful life of the assets or the lease term.

The consolidated balance of amounts payable referring to aforementioned transactions comprises the following effects:

| | Consolidated | |
|-------------------------------|----------------|----------------|
| | 03/31/2014 | 12/31/2013 |
| Nominal amount payable | 683,214 | 646,159 |
| Unrealized financial expenses | (464,138) | (427,281) |
| Present value payable | 219,076 | 218,878 |
| Current | 25,636 | 19,342 |
| Noncurrent | 193,440 | 199,536 |

Consolidated aging list of finance lease at March 31, 2014 is as follows:

| | Consolidated | |
|-------------------|------------------------|-----------------------|
| | Nominal amount payable | Present value payable |
| Within 1 year | 29,175 | 25,636 |
| From 1 to 5 years | 99,579 | 68,886 |
| Above 5 years | 554,460 | 124,554 |
| Total | 683,214 | 219,076 |

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There are no unsecured residual values resulting in benefits to the lessor or contingent payments recognized as revenue for the quarter ended March 31, 2014.

16.2 – Debentures

| | Information at March 31, 2014 | | | Company/Consolidated | |
|---|-------------------------------|------------------------------|------------|----------------------|------------------|
| | Currency | Charges | Maturity | 03/31/2014 | 12/31/2013 |
| Debentures (4 th issue) -1 st and 2 nd series | R\$ | 106.00% to 106.8% of CDI | 10/15/2015 | 767,396 | 748,233 |
| Debentures (4 th issue) - 3 rd series | R\$ | IPCA+7.00% | 10/15/2014 | 98,537 | 95,351 |
| Debentures (1 st issue) - Minas Comunica | R\$ | IPCA+0.50% 100.00% of CDI | 07/05/2021 | 78,567 | 76,722 |
| Debentures (3 rd issue) | R\$ | + 0.75% 100.00% of CDI | 09/10/2017 | 2,012,888 | 2,060,444 |
| Debentures (4 th issue) | R\$ | + 0.68% | 04/25/2018 | 1,356,853 | 1,322,900 |
| Issue cost | R\$ | | | (1,895) | (2,035) |
| Total | | | | 4,312,346 | 4,301,615 |
| Current | | | | 295,675 | 286,929 |
| Noncurrent | | | | 4,016,671 | 4,014,686 |

4th issue debentures – 1st, 2nd and 3rd series

On September 4, 2009, the Board of Directors approved the 4th public issue by that company of junior unsecured registered nonconvertible debentures, maturing over a ten-year period.

Total issue amounted to R\$810 million, basic offering of which corresponded to R\$600 million, plus R\$210 million due to full exercise of the additional debentures option. Total 810,000 (eight hundred ten thousand) debentures were issued in three series: 98,000 debentures in the 1st series, 640,000 in the second series and 72,000 in the third series. The number of debentures allocated to each series was mutually agreed between Vivo Part. and the lead coordinator of the offer after completion of the book-building procedure.

Funds obtained through this issue were used for payment of the full principal amount of the debt represented by the 6th issue of promissory notes and to support the working capital.

On October 15, 2012, the Company reset the terms for the 1st series at 106.00% of CDI as approved by the Board of Directors in a meeting held on July 24, 2012. The total amount reset was R\$93,150 and the Company redeemed debentures held by dissenting debenture holders in the amount of R\$4,850, and kept them in treasury for later cancellation.

On October 15, 2013, the Company reset all terms for the 2nd series as approved by the Board of Directors in a meeting held on September 19, 2013. The total amount reset was R\$640 million at 106.80% CDI, and a new term was scheduled, namely, October 15, 2015.

Transaction costs related to these issues, amounting to R\$ 38 at March 31, 2014 (R\$ 55 at December 31, 2013) were allocated in a reducing account in liabilities as costs to be incurred and are recognized as financial expenses, according to the contractual maturities of this issue. The effective rate of this issue, considering transaction costs, is 112.13% of CDI.

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3rd series is expected to be reset on October 15, 2014.

At March 31, 2014, total balance was R\$865,933 (R\$843,584 at December 31, 2013).

1st issue debentures – Minas Comunica

Abiding by the SMP Service Agreement, in compliance with Public Selection No. 001/07, the state of Minas Gerais, through the State Department for Economic Development, has undertaken to subscribe debentures within the scope of the “Minas Comunica” Program, using proceeds from the Fund for Universal Access to Telecommunications Services (Fundo de Universalização do Acesso a Serviços de Telecomunicações) – FUNDOMIC. Under the terms of this program, SMP services would be available to 134 locations in the areas registered under Nos. 34, 35 and 38.

Also under the program, 5,550 junior unsecured registered nonconvertible debentures, with no stock certificates issued, would be 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 1st series of the 1st issue, amounting to R\$ 6,210. In March 2008, for the service in 42 locations, 1,739 debentures were issued in the 2nd series of the 1st issue, amounting to R\$ 17,390. At December 31, 2008, for the service in 77 locations, 3,190 debentures were issued in the 3rd series of the 1st issue, amounting to R\$ 31,900, thus completing the program to provide services to 134 locations in the state of Minas Gerais.

At March 31, 2014, total balance was R\$78,567 (R\$76,722 at December 31, 2013).

3rd issue debentures – Fund raised by the Company

On July 24, 2012, the Company's Board of Directors approved a proposal to raise funds from local financial market through issue of junior nonconvertible debentures of the Company, amounting up to R\$2 billion, with a maximum seven-year term and firm underwriting.

On September 10, 2012, total 200,000 (two hundred thousand) junior unsecured registered nonconvertible debentures were issued in a single series, with par value of R\$10,000.00 (ten thousand reais), totaling R\$2 billion, under the terms of CVM Rule No. 476, of January 16, 2009, for public distribution with limited placement efforts.

Remuneration is 100.00% of CDI, plus a spread of 0.75% p.a., based on 252 working days. These debentures yield interest with semiannual payments, with interest accrual period of five years, maturing on September 10, 2017. The par value of the debentures will be fully repaid in a lump sum, at maturity date.

Debentures are not subject to scheduled reset.

Funds obtained through this limited offering were allocated to: (i) direct investments in 4G wireless telephony services, more specifically to settle the price of the authorization obtained in the 4G auction; and (ii) sustaining liquidity and rescheduling of other debts already assumed by the Company.

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Transaction costs in connection with this issue, amounting to R\$ 727 as of March 31, 2014 (R\$ 780 as of December 31, 2013), were allocated to a contra-liabilities account as deferred cost and are recognized as financial expenses, under the contractual terms of this issue.

At March 31, 2014, total balance was R\$2,012,888 (R\$2,060,444 at December 31, 2013).

4th issue debentures – Fund raised by the Company

On April 11, 2013, Company Board of Directors approved a proposal to raise funds in the local market by issuing junior nonconvertible debentures in the amount of R\$ 1.3 billion, so as to maintain the Company's liquidity to honor its future financial commitments.

The net proceeds from this issue will be fully used in amortizing future debts, in capital expenditures for the projects developed and in improving the Company's financial liquidity.

Total 130,000 debentures were issued (one hundred and thirty thousand), with par value of R\$10,000.00 (ten thousand reais). The debentures have a five-year (5) maturity as from their issue date, April 25, 2013, thereby maturing at April 25, 2018. The par value of debentures will not be monetarily restated. The balance due of debentures par value will be subject to interest corresponding to 100% (one hundred percent) of the one-day extra-group accumulated variation of average daily rates of interbank deposits (DI), expressed as an yearly percentage, based on 252 (two hundred and fifty-two) working days, calculated and published daily by CETIP S.A. – Organized Markets (CETIP), plus spread of 0.68% (sixty-eight hundredths percent) p.a., based on 252 (two hundred and fifty-two) working days (Remuneration). The Remuneration shall be calculated exponentially and cumulatively on a *pro rata* temporis by working days elapsed since the issue date or the remuneration payment date immediately before that, as the case may be, until the effective payment date. Banco Itaú BBA S.A. was the lead coordinator. The transaction costs associated with this issue amounted R\$ 1,130 at March 31, 2014 (R\$ 1,200 at December 31, 2013).

At March 31, 2014, total balance was R\$1,356,853 (R\$1,322,900 at December 31, 2013).

16.3 - Payment schedule

At March 31, 2014, breakdown of noncurrent loans, financing, finance lease and debentures by year of maturity is as follows:

| <u>Year</u> | Company / Consolidated |
|-------------------|------------------------|
| 2015 | 1,118,647 |
| 2016 | 538,443 |
| 2017 | 2,494,506 |
| 2018 | 1,807,240 |
| 2019 | 304,616 |
| From 2020 onwards | 157,891 |
| Total | 6,421,343 |

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16.4 - Covenants

The Company has loans and financing taken out from BNDES, the balance of which as of March 31, 2014 was R\$2,739,449 (R\$ 2,943,462 as of December 31, 2013). In accordance with the agreements, there are financial and economic ratios that should be considered on a semiannual and annual basis. At this same date, all economic and financial ratios provided for under the agreements in effect were met.

Fourth issue debentures, series 1, 2 and 3, net of issue costs, as of March 31, 2014 amounted to R\$865,895 (R\$843,530 as of December 31, 2013) and have economic and financial ratios that should be calculated on a quarterly basis. At this same date, all economic and financial ratios provided for under the agreements were met.

Third issue debentures, single series, the net balance of the costs of issuance on March 31, 2014 was R\$ 2,012,161 (R\$ 2,059,664 at December 31, 2013), have economic and financial indices that must be determined quarterly. At this same date, all economic and financial ratios provided for under the agreements were met.

Fourth issue debentures, single series, the net balance of the costs of issuance on March 31, 2014 was R\$ 1,355,723 (R\$ 1,321,700 at December 31, 2013), have economic and financial ratios to be calculated quarterly. At this same date, all economic and financial ratios provided for under the agreements were met.

Debentures of Minas Comunica Program, amounting to R\$ 78,567 as of March 31, 2014 (R\$ 76,722 at December 31, 2013), includes covenants as for in-court and out-of-court reorganization, liquidation, spin-off, insolvency, voluntary bankruptcy or bankruptcy, lack of payment, noncompliance with non-fiduciary commitments and compliance with certain financial ratios. On the same date, all these covenants were met.

Loans, financing and debentures of the notes presented in Tables 16.1 and 16.2, respectively, have specific provisions for penalty in case of breach of contract. A breach of contract provided for in the agreements made with the institutions listed above is characterized by noncompliance with *covenants*, breach of a clause, resulting in the early settlement of the contract.

16.5 - Guarantees

At March 31, 2014, guarantees were given for part of loans and financing of the Company, as follows:

| <u>Banks</u> | <u>Loans/financing balance</u> | <u>Guarantees</u> |
|--|--------------------------------|--|
| Brazilian Development Bank (BNDES) | R\$1,767,320 (URTJLP) | <ul style="list-style-type: none"> • Agreement (2007) R\$128,566: Guarantee in receivables referring to 15% of the higher of debt balance or 4 (four) times the highest installment. |
| | R\$494,847 (UMBND) | <ul style="list-style-type: none"> • Agreement (PSI) R\$235,475: disposal of financed asset items. • Agreement (2011) R\$2,133,601: Guarantee in receivables referring to 15% of the higher of debt balance or 4 (four) times the highest installment. |
| European Investment Bank (BEI) | R\$235,475 (PSI) | <ul style="list-style-type: none"> • Commercial risk guaranteed by Banco BBVA Spain. |
| Bank (BEI) | R\$853,435 | <ul style="list-style-type: none"> • Bank guarantee provided by Banco Bradesco S.A. amounting to approximately 100% of the financing obtained. • Establishing a liquid fund comprising short-term investments at amounts equivalent to 3 (three) repayment installments by reference to the average post-grace period installment. |
| Banco do Nordeste do Brasil S.A. - BNB | R\$199,233 | |

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16.6 – Changes

Changes in loans and financing, debentures and finance lease are as follows:

| | | Company/Consolidated | |
|-------------------------------------|------------------------|----------------------|------------------|
| | Loans and financing | Debentures | Finance lease |
| Balance at December 31, 2013 | 4,233,062 | 4,301,615 | 218,878 |
| Inflows | 87,422 | - | - |
| Financial charges | 51,821 | 107,180 | 837 |
| Monetary and exchange restatement | (46,346) | 3,701 | - |
| Write-offs (payments) | (294,737) | (100,150) | (639) |
| Balance at March 31, 2014 | 4,031,222 | 4,312,346 | 219,076 |

17. DIVIDENDS AND INTEREST ON EQUITY (IOE)

Dividend and interest on equity receivable and payable are as follows:

a) Breakdown of receivables:

Company

Consolidated

| | 03/31/2014 | 12/31/2013 | 12/31/2013 |
|--------------|---------------|---------------|--------------|
| Aliança | - | 1,140 | 1,140 |
| TData | 59,206 | 59,206 | - |
| Total | 59,206 | 60,346 | 1,140 |

b) Changes in receivables:

| | Company | Consolidated |
|---|---------------|--------------|
| Balance at December 31, 2013 | 60,346 | 1,140 |
| Dividends and interest on equity received | (1,140) | (1,140) |
| Balance at March 31, 2014 | 59,206 | - |

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

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c) Breakdown of payables:

| | Company/Consolidated | |
|---|----------------------|------------------|
| | 03/31/2014 | 12/31/2013 |
| Telefónica Internacional S.A. | - | 192,990 |
| SP Telecomunicações Participações Ltda. | - | 121,135 |
| Telefónica S.A. | - | 159,590 |
| Telefónica Chile S.A. | - | 382 |
| Noncontrolling interests | 609,582 | 713,459 |
| Total | 609,582 | 1,187,556 |

d) Changes in payables:

| | Company/ Consolidated |
|---------------------------------------|--------------------------|
| Balance at December 31, 2013 | 1,187,556 |
| Supplementary dividends for 2013 | 1,043,000 |
| Dividends and interest on equity paid | (1,620,974) |
| Balance at March 31, 2014 | 609,582 |

Interest on equity and dividends not claimed by shareholders expire within three years from the date payment commences. Should dividends and interest on equity expire, these amounts are recorded against equity for subsequent distribution.

For the cash flow statement, interest on shareholders' equity and dividends paid to shareholders is recognized in the Financing Activity group.

18. PROVISIONS

a) Breakdown/Changes:

| | Company | | | | | Total |
|--------------------------------------|------------------------------|------------------|----------------------|--------------------------------|-----------------------------------|------------------|
| | Provisions for contingencies | | | | | |
| | Labor | Tax | Civil and regulatory | Contingent liability (PPA) (a) | Provision for decommissioning (b) | |
| Balances at December 31, 2013 | 988,180 | 2,133,934 | 970,403 | 275,677 | 235,998 | 4,604,192 |
| Inflows | 42,999 | 151,391 | 100,741 | - | 6,803 | 301,934 |
| Write-offs due to payments | (32,769) | (35,636) | (23,440) | - | - | (91,845) |
| Write-offs due to reversal | (8,520) | (19,689) | (25,144) | (9,230) | (6,437) | (69,020) |
| Monetary restatement | 9,899 | 37,759 | 33,184 | 4,565 | - | 85,407 |
| Balances at March 31, 2014 | 999,789 | 2,267,759 | 1,055,744 | 271,012 | 236,364 | 4,830,668 |
| At March 31, 2014 | | | | | | |
| Current | 92,015 | - | 516,331 | - | - | 608,346 |
| Noncurrent | 907,774 | 2,267,759 | 539,413 | 271,012 | 236,364 | 4,222,322 |
| At December 31, 2013 | | | | | | |
| Current | 92,712 | - | 468,691 | - | - | 561,403 |
| Noncurrent | 895,468 | 2,133,934 | 501,712 | 275,677 | 235,998 | 4,042,789 |

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| | Consolidated | | | | | Total |
|--------------------------------------|------------------------------|------------------|----------------------|--------------------------------|-----------------------------------|------------------|
| | Provisions for contingencies | | | Contingent liability (PPA) (a) | Provision for decommissioning (b) | |
| | Labor | Tax | Civil and regulatory | | | |
| Balances at December 31, 2013 | 988,180 | 2,148,800 | 970,403 | 275,677 | 240,753 | 4,623,813 |
| Inflows | 42,999 | 151,404 | 100,741 | - | 6,803 | 301,947 |
| Write-offs due to payments | (32,769) | (35,636) | (23,440) | - | - | (91,845) |
| Write-offs due to reversal | (8,520) | (19,689) | (25,144) | (9,230) | (6,437) | (69,020) |
| Monetary restatement | 9,899 | 38,022 | 33,184 | 4,565 | - | 85,670 |
| Balances at March 31, 2014 | 999,789 | 2,282,901 | 1,055,744 | 271,012 | 241,119 | 4,850,565 |
| At March 31, 2014 | | | | | | |
| Current | 92,015 | - | 516,331 | - | - | 608,346 |
| Noncurrent | 907,774 | 2,282,901 | 539,413 | 271,012 | 241,119 | 4,242,219 |
| At December 31, 2013 | | | | | | |
| Current | 92,712 | - | 468,691 | - | - | 561,403 |
| Noncurrent | 895,468 | 2,148,800 | 501,712 | 275,677 | 240,753 | 4,062,410 |

(a) Refers to contingent liabilities arising from PPA generated in acquisition of the controlling interest of Vivo Participações S.A. in 2011.

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

The Company, as an entity and also as successor to the merged companies, and its subsidiaries are a party in labor, tax and civil claims filed in different courts. The management of the Company and its subsidiaries, based on the opinion of its legal counsel, recognized provisions for those cases in which an unfavorable outcome is considered probable.

18.1 Provisions and labor contingencies

| <u>Nature/Degree of risk</u> | Company | | Amounts involved | |
|------------------------------|------------|------------|------------------|------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Probable provisions | 999,789 | 988,180 | 999,789 | 988,180 |
| Possible contingencies | 330,636 | 313,536 | 330,636 | 313,536 |

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

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

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

18.2 Provisions and tax contingencies

| | Amounts involved | | | |
|------------------------------|------------------|------------|--------------|------------|
| | Company | | Consolidated | |
| <u>Nature/Degree of risk</u> | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Probable provisions | 2,267,759 | 2,133,934 | 2,282,901 | 2,148,800 |
| Federal | 2,186,054 | 2,027,232 | 2,201,196 | 2,042,098 |
| State | 64,181 | 91,923 | 64,181 | 91,923 |
| Municipal | 17,524 | 14,779 | 17,524 | 14,779 |
| Possible contingencies | 16,317,839 | 16,080,392 | 16,467,760 | 16,246,407 |
| Federal | 3,868,182 | 3,904,297 | 3,879,522 | 3,913,929 |
| State | 7,147,380 | 7,007,705 | 7,209,605 | 7,088,859 |
| Municipal | 629,132 | 579,556 | 630,452 | 580,853 |
| ANATEL | 4,673,145 | 4,588,834 | 4,748,181 | 4,662,766 |

Provisions for probable tax contingenciesFederal taxes

At March 31, 2014, the Company and subsidiary were party to administrative and judicial proceedings relating to: (i) additional contributions to the FGTS on deposits made by employees (the issue does not result in the reduction of part of FGTS deposits made by the Company on behalf of its employees); (ii) claims resulting from the non-ratification of compensation and refund requests, formulated by the Company; (iii) social contributions relating to a supposed failure to pay 11% on the value of invoices, billing and receipts from service providers hired for the transfer of labor; (iv) CIDE levied on the remittance of funds abroad relating to technical services, administrative assistance and to services of similar nature, as well as royalties; (v) fixed: non-inclusion of interconnection and EILD expenses in the FUST base and Wireless carriers: non-inclusion of revenues from interconnection in the FUST tax base; (vi) contribution to *Empresa Brasileira de Comunicação*, created by Law No. 11,652/08; (vii) TFI/TFF on mobile stations; (viii) IRRF on Interest on shareholders' Equity; (ix) Price for Numbering Resources Management (PPNUM) by ANATEL instituted by Resolution No. 451/06; (x) IRPJ/PIS/COFINS resulting from the non-ratification of offset and refund requests made by the Company and its subsidiaries; (xi) Social Investment Fund (Finsocial) offset amounts; (xii) failure to pay withholding social contribution levied on services rendered, remuneration, salaries and other salary bases; (xiii) COFINS – Requirement resulting from non-inclusion of financial income into the tax base; (xiv) additional charges to the PIS and COFINS tax base, as well as additional charges to COFINS required by Law No. 9,718/98; and (xv) Tax on Net Income (ILL).

At March 31, 2014, total consolidated provisions amounted to R\$ 2,201,196 (R\$ 2,042,098 at December 31, 2013).

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State taxes

At March 31, 2014, the Company or its subsidiary were parties to administrative and judicial proceedings in progress referring to (i) ICMS tax credits on electric power and tax credits without documentation (ii) ICMS not levied on telecommunication services; (iii) disallowance of ICMS tax incentives for cultural projects; and (iv) environmental administrative fine.

At March 31, 2014, total consolidated provisions amounted to R\$ 64,181 (R\$ 91,923 at December 31, 2013).

Municipal taxes

At March 31, 2014, the Company and its subsidiary were parties to tax claims at a municipal level, in the judicial sphere which, based on the opinion of its legal advisors, are classified as a probable loss.

These proceedings relate to: (i) IPTU, (ii) ISS levied on chattel lease services and secondary and complementary activities, and (iii) Surveillance, Control and Inspection Fee (TVCF).

At March 31, 2014, total consolidated provisions amounted to R\$ 17,524 (R\$ 14,779 at December 31, 2013).

Possible tax contingencies

Federal taxes

At March 31, 2014, the Company and its subsidiary were parties to various administrative and judicial proceedings, at the federal level, which are ongoing in various court levels.

Key proceedings refer to: (i) protest letters due to non-ratification of compensation requests made by the Company; (ii) social security contribution (INSS) on compensation payment for salary devaluation arising from losses caused by “*Plano Verão*” (Summer Plan) and “*Plano Bresser*” (Bresser Plan), SAT (Occupational Accident Insurance), Social Security and payables to third parties (INCRA and SEBRAE), supply of meals to employees, 11% retention (labor assignment); (iii) IRRF on the funds remittance abroad related to technical services and to administrative support and similar services, as well as royalties; (iv) PIS levied on roaming; (v) CPMF levied on operations resulting from the technical cooperation agreement with the National Treasury Department (STN) (offsetting through the Integrated System of Federal Government Financial Administration - SIAFI) and on foreign-exchange contracts required by the Brazilian Central Bank; (vi) IRPJ and CSLL related to deductions on revenues from reversal of provisions; (vii) IRPJ and CSLL - disallowance of costs and sundry expenses not evidenced; (viii) deductions of COFINS from loss in swap transactions; (ix) PIS / COFINS accrual basis versus cash basis; (x) IRPJ payable in connection with allocation of excess funds to Northeast Investment Fund (FINOR), Amazon Region Investment Fund (FINAM) or Economic Recovery Fund of Espírito Santo State (FUNRES); and (xi) IRPJ on derivative operations; (xii) IRPJ and CSLL – disallowance of expenses related to the goodwill paid in the acquisition of Celular CRT S.A., goodwill arising from the privatization process and corporate restructuring of Vivo (merged into the Company on July 1, 2013) and goodwill arising from merger of Navytree and TDBH.

According to Management and the Company’s legal advisors, the likelihood of loss in these proceedings is possible.

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At March 31, 2014, total consolidated provisions amounted to R\$ 3,879,522 (R\$ 3,913,929 at December 31, 2013).

State taxes

At March 31, 2014, the Company and its subsidiary were parties to various administrative and judicial proceedings related to ICMS, at the state level, which are ongoing in various court levels.

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

According to Management and the Company’s legal advisors, the likelihood of loss in these proceedings is possible.

At March 31, 2014, total consolidated provisions amounted to R\$ 7,209,605 (R\$ 7,088,859 at December 31, 2013).

Municipal taxes

At March 31, 2014, the Company and its subsidiary were parties to various administrative and judicial proceedings, at the municipal level, which are ongoing in various court levels.

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

According to Management and the Company's legal advisors, the likelihood of loss in these proceedings is possible.

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At March 31, 2014, total consolidated provisions amounted to R\$ 630,452 (R\$ 580,853 at December 31, 2013).

ANATEL

Universal Telecommunication Services Fund (FUST)

Injunction petitioned separately by landline and wireless carriers for acknowledgement of their right to:
Landline phone carriers: non-inclusion of interconnection and EILD expenses in the FUST base and
Wireless carriers: non-inclusion of interconnection revenue in the FUST base, pursuant to Abridgement No. 7, of December 15, 2005, since it disagrees with the provisions of the sole paragraph, article 6, of Law No. 9,998/00, which are waiting to be tried in the court of appeals.

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

According to Management and the Company's legal advisors, the likelihood of loss in these proceedings is possible.

At March 31, 2014, total consolidated provisions amounted to R\$ 2,224,653 (R\$ 2,185,034 at December 31, 2013).

Telecommunications Technology Development Fund (FUNTTEL)

At March 31, 2014, the Company and its subsidiary were parties to administrative and judicial proceedings which are waiting to be tried at the lower administrative court and the court of appeals. Such proceedings concern the collection of contributions to FUNTTEL on other revenues (not related to telecom services), as well as on income and expenses transferred to other operators (interconnection).

According to Management and the Company's legal advisors, the likelihood of loss in these proceedings is possible.

At March 31, 2014, total consolidated provisions amounted to R\$ 673,828 (R\$ 664,386 at December 31, 2013).

Telecommunications Inspection Fund (FISTEL)

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

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

According to Management and the Company's legal advisors, the likelihood of loss in these proceedings is possible.

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At March 31, 2014, total consolidated provisions amounted to R\$ 1,847,426 (R\$ 1,811,104 at December 31, 2013), without the respective judicial deposit.

Public Price for Numbering Resource Management (PPNUM)

The Company, along with other wireless carriers in Brazil, is challenging in court the tariff charged by ANATEL for use by such carriers of the numbering resources managed by the agency. When charged by ANATEL, Vivo (merged into the Company on July 1, 2013) made a judicial deposit referring to the amounts payable. On April 23, 2009, the carriers received a favorable sentence and the lawsuit is currently waiting to be tried at the court of appeals.

According to Management and the Company's legal advisors, the likelihood of loss in these proceedings is possible.

At March 31, 2014, total consolidated provisions amounted to R\$ 2,274 (R\$ 2,242 at December 31, 2013).

18.3 Provisions, civil and regulatory contingencies

| | Amounts involved | | | |
|------------------------------|------------------|------------|--------------|------------|
| | Company | | Consolidated | |
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| <u>Nature/Degree of risk</u> | | | | |
| Probable provisions | 1,055,744 | 970,403 | 1,055,744 | 970,403 |
| Civil | 642,009 | 599,868 | 642,009 | 599,868 |
| Regulatory | 413,735 | 370,535 | 413,735 | 370,535 |

| | | | | |
|------------------------|-----------|-----------|-----------|-----------|
| Possible contingencies | 3,512,055 | 3,366,707 | 3,512,055 | 3,366,707 |
| Civil | 1,781,889 | 1,681,450 | 1,781,889 | 1,681,450 |
| Regulatory | 1,730,166 | 1,685,257 | 1,730,166 | 1,685,257 |

Provisions for probable civil contingencies

- The Company is party to proceedings that involve right to receive supplementary amounts from shares calculated in relation to the network expansion plan after 1996 (supplement of shares proceedings). These proceedings involve various phases: 1st level, Court of Justice and Supreme Court of Justice. At March 31, 2014, considering the degree of risk involved, consolidated provision amounted to R\$ 39,086 (R\$ 37,191 at December 31, 2013).
- The Company is party to proceedings of a civil nature, in the administrative and judicial spheres, the subject of which are rights relating to the provision of services. These proceedings are filed by individual consumers, civil associations representing consumer rights, PROCON, as well as the State and Federal Public Prosecutor's Offices. Similarly, the Company is defendant or plaintiff in other proceedings the subject of which relates to matters other than those under the normal course of business. At March 31, 2014, total consolidated provisions amounted to R\$ 507,924 (R\$ 469,149 at December 31, 2013).

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- The Company is also involved in various lawsuits filed by individual consumers, with similar characteristics, which individually are not considered to be material, based on provision analysis, the historical average of losses in similar proceedings. At March 31, 2014, total consolidated provisions amounted to R\$ 94,999 (R\$ 93,528 at December 31, 2013).

Provisions for probable regulatory contingencies

The Company is party to administrative proceedings against ANATEL, which were filed based on alleged noncompliance with obligations set forth in industry regulations, as well as in legal claims discussing sanctions by ANATEL at the administrative level. The likelihood of loss in these proceedings is probable and at March 31, 2014 consolidated provisions amounting to R\$ 413,735 (R\$ 370,535 at December 31, 2013) consolidated were set up.

Possible civil contingencies

- Community Telephone Plan – PCT: Refers to a Public Civil Action to which the Company is a party and which is related to the PCT, a plan that allows purchasers of telephone line expansion plans who did not receive shares for their financial investment to claim indemnity rights, in the municipality of Mogi das Cruzes. Total consolidated provisions amounted to R\$295,377 at March 31, 2014 (R\$281,059 at December 2013). These proceedings were assessed as a possible loss by legal counsel. The São Paulo State Court of Justice (TJSP) has reversed the decision and deemed the claim groundless. The carriers association of Mogi das Cruzes (plaintiff) filed a special appeal to reverse that decision, which is currently awaiting a decision.

- Class actions filed by SISTEL Members Association (ASTEL) in São Paulo State, whereby SISTEL members in São Paulo State question the changes made in the health care plan for retired employees (PAMA), and that former conditions are restored. The claim is still at the appeal stage, pending a decision by the court of appeals, which changed the dismissal decision. The likelihood of loss in these proceedings was deemed as possible by legal counsel. The amount is not measurable and the claims are uncertain due to their unenforceability, since it would be necessary to restore the plan to its previous conditions.
- Public civil actions filed by ASTEL - SISTEL Members Association in São Paulo State and FENAPAS - National Federation of Associations of Retirees, Pensioners and Pension Funds Members of the Telecommunications Industry, both against SISTEL, the Company and other carriers, seeking annulment of PBS pension plan spin-off, claiming “the dismantling of SISTEL Foundation supplementary pension system”, which originated several specific PBS-mirrors plans, and respective allocation of resources deriving from technical surplus and tax contingencies at the time of the spin-off. The likelihood of loss in these proceedings was deemed as possible by legal counsel. The amount is not measurable and the claims are uncertain due to their unenforceability, since it would be necessary to restore SISTEL's spun-off fund related to carriers of the former Telebrás System.
- The Public Prosecutor's Office of São Paulo State began a public 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's Office suggested that the indemnification to be paid should be R\$ 1 billion. The decision handed down on April 20, 2010 imposes the payment of indemnification for damages caused to all consumers who have filed a suit for such damages.

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(In thousands of reais)

Conversely, in the event that the number of claiming consumers is not in line with the gravity of damages, after the lapsing of one year, the judge determined that the amount of R\$ 60 million should be deposited in the Special Expenses Fund to Recover Natural Rights Damages (Fundo Especial de Despesa de Reparação de Interesses Difusos Lesados). It is not possible to estimate the number of consumers who will individually file suits nor the amounts claimed thereby. The parties filed an appeal on the merits of the case. The judgment effects are in abeyance. No amount has been assigned to the possible likelihood of an unfavorable outcome in connection with this action, since, in the case of loss, estimating the corresponding amount payable by the Company is not practicable at this time. Likewise, establishing a provision for contingency equivalent to the amount sought is not possible.

- The Company is 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 Prosecutor's Office. It is also involved in other claims of several types related to the normal course of business. Total contingency amounts to R\$ 1,472,993 at March 31, 2014 (R\$1,383,932 December 31, 2013), whose likelihood of an unfavorable outcome has been assessed by their legal advisors as possible.
- The Company has received fines regarding the noncompliance with SAC Decree. We currently have various actions (administrative and judicial proceedings), where the likelihood of an unfavorable outcome has been assessed by legal advisors as possible, amounting to at March 31, 2014 R\$ 13,519 (R\$ 16,459 at December 31, 2013).
- Intellectual Property: Lune Projetos Especiais Telecomunicação Comércio e Ind. Ltda (Lune), a Brazilian company, proposed the lawsuit on November 20, 2001 against 23 wireless carriers claiming to own the patent for caller ID and the trademark "Bina". The purpose of that lawsuit is to interrupt provision of such service by carriers and to seek indemnification equivalent to the amount paid by consumers for using the service.

An unfavorable sentence was passed determining that the Company should refrain from selling mobile phones with Caller ID service (Bina), subject to a daily fine of R\$ 10,000.00 (ten thousand reais) in case of noncompliance. Furthermore, according to the sentence passed, Vivo (merged into the Company on July 1, 2013) must pay indemnification for royalties to be calculated in settlement. Motions for Clarification were opposed by all parties and Lune's motions for clarification were accepted since an injunctive relief in this stage of the proceedings was deemed applicable. Bill of review appeal in view of the current decision which granted a stay of execution suspending that unfavorable decision until final judgment of the review. Bill of review for appeal at sentence phase pending decision. We believe that the likelihood of an unfavorable outcome has been assessed by legal advisors as possible. There is no way to determine the extent of potential liabilities with respect to this claim.

- Validity of prepaid plan: The Company and other wireless carriers are defendants in several lawsuits filed by the Public Prosecutor's Office and consumer associations to challenge imposition of a period to use prepaid minutes. The plaintiffs allege that the prepaid minutes should not expire after a specific period. Conflicting decisions were handed down by courts on the matter. Although we believe that our criteria for the period determination comply with ANATEL standards, the likelihood of an unfavorable outcome has been assessed by legal advisors as possible, except for collective actions against Telemig, for which the probability of an unfavorable outcome in relation to this claim is deemed remote, also based on the opinion of our legal advisors.

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Notes to Quarterly Information

Three-month period ended March 31, 2014

(In thousands of reais)

• **Possible regulatory contingencies**

• The Company is party to administrative proceedings filed by ANATEL alleging noncompliance with the obligations set forth in industry regulations, as well as legal claims which discuss the sanctions applied by ANATEL at the administrative level, rating the likelihood of loss as possible, at March 31, 2014, amounting to R\$1,730,166 (R\$ 1,685,257 at December 31, 2013).

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

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

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

According to the Company's legal advisors, the likelihood of loss in these proceedings is possible.

18.4 Guarantees

At March 31, 2014, the Company and its subsidiaries granted guarantees for tax, civil and labor proceedings, as follows:

| | Properties and equipment items | Consolidated Judicial deposits and garnishments | Letter of guarantee |
|----------------------|--------------------------------------|--|------------------------|
| Civil, labor and tax | 170,816 | 4,511,814 | 2,343,037 |
| Total | 170,816 | 4,511,814 | 2,343,037 |

In addition to the guarantees presented above, at March 31, 2014, the Company and its subsidiaries had amounts under short-term investment frozen by the courts (except for loan-related investments), amounting to R\$ 52,454 - consolidated (R\$ 46,451 at December 31, 2013).

Telefônica Brasil S.A.

Notes to Quarterly Information

Three-month period ended March 31, 2014

(In thousands of reais)

19. DEFERRED REVENUE

| | Company | | Consolidated | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Activation revenue (a) | 108,702 | 114,503 | 113,374 | 120,521 |
| Services and goods (b) | 697,409 | 673,810 | 697,409 | 673,810 |
| Disposal of PP&E c | 125,214 | 123,063 | 125,214 | 123,063 |
| Government grants (d) | 54,431 | 40,840 | 54,431 | 40,840 |
| Customer loyalty program (e) | 91,729 | 91,763 | 91,729 | 91,763 |
| Donation of equipment (f) | 9,937 | 11,076 | 9,937 | 11,076 |
| Other revenues | 11,145 | 10,139 | 11,145 | 10,139 |
| Total | 1,098,567 | 1,065,194 | 1,103,239 | 1,071,212 |
| Current | 844,683 | 812,843 | 848,397 | 817,551 |
| Noncurrent | 253,884 | 252,351 | 254,842 | 253,661 |

a) Refers to the deferral of activation revenue (fixed) recognized in income over the estimated period of duration of the customer plan

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

c) Refers to net balance of the residual value from disposal of non-strategic towers and rooftops to be transferred to income upon compliance with conditions for recognition in books.

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

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

20. OTHER LIABILITIES

| | Company | | Consolidated | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 03/31/2014 | 12/31/2013 | 03/31/2014 | 12/31/2013 |
| Third party withholdings | 110,003 | 231,784 | 112,239 | 236,510 |
| Amounts to be refunded to subscribers | 48,282 | 52,418 | 52,364 | 56,746 |
| Payables to related parties | 282,653 | 257,519 | 107,296 | 105,164 |
| Payable for license renewal | 193,178 | 154,211 | 193,178 | 154,211 |
| Other creditors | 55,327 | 50,916 | 59,059 | 56,275 |
| Total | 689,443 | 746,848 | 524,136 | 608,906 |
| Current | 533,498 | 602,195 | 400,139 | 487,994 |
| Non-current | 155,945 | 144,653 | 123,997 | 120,912 |

Telefônica Brasil S.A.

Notes to Quarterly Information

Three-month period ended March 31, 2014

(In thousands of reais)

21. EQUITY

a) Capital

Paid-in capital as of March 31, 2014 and December 31, 2013, amounted to R\$ 37,798,110. Subscribed and paid-in capital is divided into shares without par value, as follows:

| <u>Shareholders</u> | Common shares | | Preferred shares | | Grand Total | |
|---|--------------------|----------------|--------------------|----------------|----------------------|-----------------------------|
| | Number | % | Number | % | Number | %, includes treasury shares |
| Telefónica Internacional S.A. | 58,859,918 | 15.43% | 271,707,098 | 36.52% | 330,567,016 | 29.37% |
| Telefónica S.A. | 97,976,194 | 25.68% | 179,862,845 | 24.17% | 277,839,039 | 24.68% |
| SP Telecomunicações Participações Ltda | 192,595,149 | 50.47% | 29,042,853 | 3.90% | 221,638,002 | 19.69% |
| Telefónica Chile S.A. | 696,110 | 0.18% | 11,792 | 0.00% | 707,902 | 0.06% |
| Total companies of the group | 350,127,371 | 91.76% | 480,624,588 | 64.60% | 830,751,959 | 73.81% |
| other shareholders | 31,208,300 | 8.18% | 261,308,985 | 35.12% | 292,517,285 | 25.99% |
| Total outstanding shares | 381,335,671 | 99.93% | 741,933,573 | 99.72% | 1,123,269,244 | 99.79% |
| Treasury shares | 251,440 | 0.07% | 2,081,246 | 0.28% | 2,332,686 | 0.21% |
| Tota shares | 381,587,111 | 100.00% | 744,014,819 | 100.00% | 1,125,601,930 | 100.00% |
| Book value per share outstanding in R\$: | | | | | | |
| March 31, 2014 | | | | | | 37.84 |
| December 31, 2013 | | | | | | 38.19 |

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, subject to the authorized capital limit. However, the Brazilian Corporation Law – Law No. 6,404/76, article 166, IV – establishes that capital may be increased through a Special Shareholders' Meeting resolution held to decide about amendments to the Articles of Incorporation, if authorized capital increase 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.

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 Articles of Incorporation and clause II, paragraph 1, article 17, of Law No. 6,404/76.

b) Bonus paid on acquisition of interest from non-controlling shareholders

In accordance with the accounting practices adopted in Brazil prior to the adoption of the IFRS/CPC, goodwill was recorded when shares were acquired at a higher value than their book value, generated by the difference between the book value of shares acquired and the transaction's fair value. With the adoption of IAS 27R (IFRS 10 since 2013)/CPC 35 and 36, the effects of all acquisition of shares from non-controlling shareholders are recorded under equity when there is no change in the shareholding. Consequently, these transactions no longer generate goodwill or income, and the goodwill previously generated from acquisition from non-controlling shareholders were adjusted based on the Company's equity. The acquisition of shares from non-controlling shareholders of Company subsidiaries totaled R\$40,519. The balance of this account at March 31, 2014 and December 31, 2013 was R\$70,448.

Telefônica Brasil S.A.

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Three-month period ended March 31, 2014

(In thousands of reais)

c) Capital reserves

Special goodwill reserve

This represents the tax benefit generated by the merger of Telefonica Data do Brasil Ltda. which will be capitalized in favor of the controlling shareholders after the tax credits are realized under the terms of CVM Ruling No. 319/99. The balance of this account at March 31, 2014 and December 31, 2013 was R\$63,074.

Other capital reserves

Other capital reserves are issue or capitalization in excess, in relation to the basic share value on the issue date. The balance of this account at March 31, 2014 and December 31, 2013 was R\$2,735,930.

Treasury shares

These represent the Company's treasury shares arising from: i) merger of TDBH (in 2006); ii) merger of Vivo Part. (in 2011), and iii) repurchase of common and preferred shares. As of March 31, 2014 and December 31, 2013, balance in this account amounted to R\$ 112,107.

d) Income reserve

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. The balance of this account at March 31, 2014 and December 31, 2013 was R\$1,285,797.

Tax incentive reserve

This reserve refers to the a 75% income tax reduction benefit to be applied on Profit from Tax Incentive Operations (PTIO) in the following areas: North of Minas Gerais State, Vale do Jequitinhonha and the states of Acre, Amapá, Amazonas, Maranhão, Mato Grosso, Pará, Rondônia and Roraima.

Pursuant to article 195-A of Law No. 6,404/76, the portion of profit subject to the incentive was also excluded from dividend calculation, and may be used only in the event of capital increase or loss absorption.

The balance of this account at March 31, 2014 and December 31, 2013 was R\$1,699.

e) Dividends – interim and proposed

On February 25, 2014, the Company's Board of Directors approved the allocation of interim dividend amounting to R\$1,043,000, based on income recorded in the fourth quarterly balance of 2013, to common and preferred shareholders enrolled with the Company through the end of March 10, 2014. Payment of this interim dividend started on March 27, 2014.

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(In thousands of reais)

Unclaimed dividends

The dividends and interest on equity unclaimed by shareholders expire in 3 (three) years, as from the initial payment date, pursuant to article 287, paragraph II, item “a” of Law No. 6,404, of December 15, 1976. The Company reverses the amount of unclaimed dividends upon expiration to retained earnings.

f) Other comprehensive income

- Financial instruments available for sale: Refer to fair value variations of financial assets available for sale. The balance at March 31, 2014 was (R\$5,421) and (R\$2,658 at December 31, 2013).
- Derivative transactions: Derivative transactions refer to the effective part of cash flow hedges until the balance sheet date. The balance at March 31, 2014 was R\$7,951 (R\$6,610 at December 31, 2013).
- Currency translation difference of investments abroad: Refers to currency translation differences arising from the conversion of financial statements of foreign subsidiaries. The balance at March 31, 2014 was R\$12,042 (R\$12,897 at December 31, 2013).

The breakdown of other comprehensive income for the three month period ended March 31, 2014.

Consolidated

Total

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| | Financial instruments available for sale | Operations with derivatives | Difference from translation of investment abroad | |
|--|---|-----------------------------------|--|---------------|
| Balances at 12/31/2013 | (2,658) | 6,610 | 12,897 | 16,849 |
| Foreign exchange variation | (2,763) | - | - | (2,763) |
| Futures | - | 1,341 | - | 1,341 |
| Loss on financial assets available for sale | - | - | (855) | (855) |
| Balances at 3/31/14 | (5,421) | 7,951 | 12,042 | 14,572 |

22. NET OPERATING REVENUE

| | Company | | Consolidated | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 1st Quarter 2014 | 1st Quarter 2013 | 1st Quarter 2014 | 1st Quarter 2013 |
| Telephony services | 6,558,317 | 2,754,289 | 6,558,304 | 6,549,458 |
| Network use | 786,932 | 334,361 | 786,932 | 1,056,267 |
| Data and SVA | 3,899,967 | 1,352,625 | 4,318,705 | 3,854,114 |
| TV Services | 157,982 | - | 157,982 | 153,999 |
| Other services (a) | 244,249 | 183,082 | 303,980 | 322,350 |
| Sales of goods and devices | 818,907 | - | 862,603 | 888,588 |
| Gross operating revenue | 12,466,354 | 4,624,357 | 12,988,506 | 12,824,776 |
| Tax | (2,995,997) | (1,006,057) | (3,098,334) | (3,118,953) |
| Rebates and returns | (1,276,308) | (468,329) | (1,278,242) | (1,150,339) |
| Deductions from gross operating revenue | (4,272,305) | (1,474,386) | (4,376,576) | (4,269,292) |
| Net operating revenue | 8,194,049 | 3,149,971 | 8,611,930 | 8,555,484 |

(a) The amounts referring to infrastructure-related swap contracts, under the concept of agent and principal (CPC 30 and IAS 18), which were not recognized as costs and revenues for the three month periods ended March 31, 2014 and 2013 were R\$35,185 and R\$16,778, respectively (Note 23).

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(In thousands of reais)

No customer contributed more than 10% of gross operating revenue for the three month periods ended March 31, 2014 and 2013.

All amounts in net income are included in income and social contribution tax bases.

23. COST OF SALES AND SERVICES

| | Company | | | | | | | |
|---|--|---------------------|---|-------------|--|---------------------|---|-----------|
| | 1st Quarter 2014 | | | | 1st Quarter 2013 | | | |
| | Cost of goods sold and services rendered | Selling expenses | General and administrative expenses | Total | Cost of goods sold and services rendered | Selling expenses | General and administrative expenses | Total |
| Personnel | (107,810) | (370,667) | (124,557) | (603,034) | (68,594) | (110,398) | (96,974) | (275,966) |
| Material | (9,369) | (13,145) | (367) | (22,881) | (10,845) | (250) | (669) | (11,764) |
| Third party services | (815,644) | (1,402,172) | (172,887) | (2,390,703) | (449,237) | (431,429) | (61,104) | (941,770) |
| Interconnection and network use | (873,060) | - | - | (873,060) | (839,130) | - | - | (839,130) |
| Publicity and advertising | - | (203,035) | - | (203,035) | - | (21,816) | - | (21,816) |
| Rent, insurance, condominium fees and connection media (a) | (368,247) | (30,603) | (49,331) | (448,181) | (106,311) | (2,533) | (9,306) | (118,150) |
| | (431,246) | (719) | (27,377) | (459,342) | (55,561) | (1,256) | (2,156) | (58,974) |

| | | | | | | | | |
|---|--------------------|--------------------|------------------|--------------------|--------------------|------------------|------------------|--------------------|
| Taxes, charges and contributions | | | | | | | | |
| Provision for reduction in recoverable value from accounts receivable | - | (196,448) | - | (196,448) | - | (80,152) | - | (80,152) |
| Depreciation and amortization | (1,100,806) | (234,193) | (103,698) | (1,438,697) | (535,598) | (119,815) | (12,996) | (665,002) |
| Cost of goods sold | (488,099) | - | - | (488,099) | - | - | - | - |
| Other operating goods and expenses | (919) | (32,515) | (9,234) | (42,668) | (62) | (5,217) | 874 | (4,403) |
| Total | (4,195,200) | (2,483,497) | (487,451) | (7,166,148) | (2,065,338) | (772,866) | (182,331) | (3,020,712) |

Consolidated

| | 1st Quarter 2014 | | | 1st Quarter 2013 | | | | |
|---|--|------------------|-------------------------------------|------------------|--|------------------|-------------------------------------|-------------|
| | Cost of goods sold and services rendered | Selling expenses | General and administrative expenses | Total | Cost of goods sold and services rendered | Selling expenses | General and administrative expenses | |
| Personnel | (114,023) | (370,667) | (124,564) | (609,254) | (134,765) | (341,130) | (217,588) | (692,483) |
| Material | (10,119) | (13,145) | (367) | (23,631) | (12,918) | (8,473) | (2,056) | (23,447) |
| Third party services | (983,025) | (1,417,276) | (173,215) | (2,573,516) | (885,657) | (1,178,599) | (209,185) | (2,273,441) |
| Interconnection and network use | (864,764) | - | - | (864,764) | (950,756) | - | - | (950,756) |
| Publicity and advertising | - | (203,035) | - | (203,035) | - | (160,736) | - | (160,736) |
| Rent, insurance, condominium fees and connection media (a) | (369,564) | (30,603) | (49,348) | (449,515) | (356,197) | (32,849) | (41,547) | (430,593) |
| Taxes, charges and contributions | (436,215) | (719) | (27,476) | (464,410) | (439,198) | (2,009) | (21,250) | (461,457) |
| Provision for reduction in recoverable value from accounts receivable | - | (207,860) | - | (207,860) | - | (203,086) | - | (203,086) |

| | | | | | | | | |
|------------------------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|------------------|--------------|
| Depreciation and amortization | (1,105,596) | (234,193) | (103,765) | (1,443,554) | (1,062,973) | (219,296) | (115,007) | (1,39 |
| Cost of goods sold | (511,843) | - | - | (511,843) | (559,743) | - | - | (55 |
| Other operating goods and expenses | (1,195) | (32,515) | (9,234) | (42,944) | (4,255) | (29,830) | (5,896) | (3 |
| Total | (4,396,344) | (2,510,013) | (487,969) | (7,394,326) | (4,406,462) | (2,176,008) | (612,529) | (7,19 |

(a)The amounts referring to infrastructure-related *swap* contracts, under the concept of agent and principal (CPC 30 and IAS 18), which were not recognized as costs and revenues for the three month periods ended March 31, 2014 and 2013 were R\$35,185 and R\$16,778, respectively (Note 22).

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(In thousands of reais)

24. OTHER OPERATING INCOME (EXPENSES)

| | Company | | Consolidated | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 1st Quarter 2014 | 1st Quarter 2013 | 1st Quarter 2014 | 1st Quarter 2013 |
| Fines and expenses recovered | 93,694 | 36,001 | 108,816 | 85,534 |
| Provision for deactivation of assets, labor, tax and civil, net | (195,240) | (95,846) | (195,970) | (145,519) |
| Net income from disposal/ losses from assets | (12,886) | 57,196 | (14,546) | 54,126 |
| Other income (expenses) | 3,663 | (991) | 3,385 | (4,299) |
| Total | (110,769) | (3,640) | (98,315) | (10,158) |
| Other operating income | 114,176 | 102,466 | 129,296 | 158,188 |
| Other operating expenses | (224,945) | (106,106) | (227,611) | (168,346) |
| Total | (110,769) | (3,640) | (98,315) | (10,158) |

25. NET FINANCIAL INCOME (EXPENSES)

| | Company | | Consolidated | |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 1st Quarter 2014 | 1st Quarter 2013 | 1st Quarter 2014 | 1st Quarter 2013 |
| Financial income (expenses) | | | | |
| Investments income | 149,708 | 51,349 | 160,431 | 117,801 |
| Gains from derivatives | 141,469 | 8,683 | 141,469 | 47,845 |
| Interest receivable | 32,783 | 23,503 | 32,861 | 84,555 |
| Monetary/ foreign exchange gains | 162,537 | 16,647 | 162,959 | 75,242 |
| Other financial income | 34,820 | 11,254 | 40,293 | 39,677 |
| | 521,317 | 111,436 | 538,013 | 365,120 |

| | | | | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| Financial expenses | | | | |
| Other liabilities | (208,572) | (95,329) | (208,949) | (180,906) |
| Losses with derivative operations | (214,420) | (19,749) | (214,420) | (97,347) |
| Monetary/ foreign exchange losses | (140,960) | (41,245) | (140,527) | (71,721) |
| Other financial expenses | (62,297) | (10,419) | (62,447) | (31,877) |
| | (626,249) | (166,742) | (626,343) | (381,851) |
| Financial result, net | (104,932) | (55,306) | (88,330) | (16,731) |

26. INCOME AND SOCIAL CONTRIBUTION TAXES

The Company and its subsidiary recognize income and social contribution taxes on a monthly basis, on an accrual basis, and pay the taxes based on estimates, in accordance with interim trial balances. Taxes calculated on profit or losses for the periods covered by the financial statements are recorded in liabilities or assets, as applicable.

Reconciliation of tax expense and statutory tax rates

Reconciliation of the reported tax charges and the amounts calculated by applying the nominal tax rate of 34% (income tax of 25% and social contribution tax of 9%) at March 31, 2014 and 2013 is shown in the table below.

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(In thousands of reais)

| | Company | | Consolidated | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 1st Quarter 2014 | 1st Quarter 2013 | 1st Quarter 2014 | 1st Quarter 2013 |
| Pretax income | 957,635 | 865,857 | 1,031,964 | 1,333,150 |
| Income and social contribution expenses on statutory rate (34%) | (325,596) | (294,391) | (350,868) | (453,271) |
| <u>Permanent and temporary differences</u> | | | | |
| Equity pickup net of effects for interest on equity received | 49,448 | 270,425 | 342 | (151) |
| Nondeductible expenses, gifts and incentives | (26,089) | (1,989) | (26,089) | (18,247) |
| Unrecognized deferred taxes in subsidiaries on income and social contribution tax losses | - | - | - | (35,023) |
| Other exclusions/ additions | 5,372 | (29,727) | 5,421 | (16,283) |
| Tax expenses | (296,865) | (55,682) | (371,194) | (522,975) |
| Effective rate | 31% | 6% | 36% | 39% |
| Current IRPJ and CSLL | (234,369) | - | (296,575) | (279,529) |
| Deferred IRPJ and CSLL | (62,496) | (55,682) | (74,619) | (243,446) |

Breakdown of changes in the deferred income and social contribution tax assets and liabilities on temporary differences is shown in Note 6.2.

27. EARNINGS PER SHARE

Basic and diluted earnings per share were calculated by dividing income attributed to the Company's shareholders by the weighted average 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.

The table below shows the calculation of earnings per share for the three month periods ended March 31, 2014 and 2013:

| | Company | |
|--|---------------------|---------------------|
| | 1st Quarter 2014 | 1st Quarter 2013 |
| Net income for the year attributed to shareholders: | 660,770 | 810,175 |
| Common | 210,424 | 258,003 |
| Preferred | 450,346 | 552,172 |
| Number of shares: | 1,123,269 | 1,123,269 |
| Weighted average of outstanding common shares over the year | 381,336 | 381,336 |
| Weighted average of outstanding preferred shares over the year | 741,933 | 741,933 |
| Basic and diluted earnings per share: | | |
| Common shares | 0.55 | 0.68 |
| Preferred shares | 0.61 | 0.74 |

28. RELATED-PARTY TRANSACTIONS AND BALANCES

28.a) Terms and conditions of related-party transactions:

a) Fixed and mobile telephone services: fixed and mobile telephone services provided by companies of Telefónica Group;

b) Expenses incurred: are charged to the Company by Media Networks Latino America and Telefónica Del Peru;

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- c) Digital TV services: provided by Media Networks Latino America;

- d) Lease and maintenance of safety equipment: Provided by Telefonica Engenharia e Segurança do Brasil Ltda.;

- e) Corporate services: these are passed through at the cost effectively incurred on those services;

- f) Systems development and maintenance services: provided by Telefónica Global Technology;

- g) International transmission infrastructure for a number of data circuit and roaming services: provided by Telefónica International Wholesale Brazil, Telefónica International Wholesale Services Spain and Telefónica USA;

- h) Administrative management services: financial, equity, accounting and human resources services provided by Telefonica Serviços Empresariais do Brasil;

- i) Logistics and courier services: provided by Telefonica Transportes e Logística;

- j) Voice portal content provider services: provided by Terra Networks Brazil;

- k) Data communications and integrated solution services: provided by Telefónica International Wholesale Services Spain and Telefónica USA;

- l) Long-distance calls and international roaming services: provided by companies of Telefónica Group;

- m) Refund of expenses: from advisory service fees, expenses with salaries and other expenses paid by the Company to be refunded by companies of the Telefónica Group;

- n) Brand fee: Assignment of rights to use the brand paid to Telefónica;

- o) Stock option plan: to employees of Telefónica and TData linked to the acquisition of Telefónica S.A. shares;

- p) Cost Sharing Agreement (CSA): Reimbursement of spending relating to digital businesss for Telefónica Internacional; and

- q) Lease of buildings: Lease of buildings where Telefônica Serviços Empresariais do Brasil and Telefônica Transportes e Logística are based;

For the transactions above, the prices practiced and other sales conditions are agreed between the parties.

A summary of the balances and transactions with related parties is as follows:

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| | Type of transaction | Balance sheets - assets | | | | | |
|-------------------------------------|---------------------|-------------------------|--------------------------|--------------------|----------------|---------------|--------------------|
| | | 03/31/2014 | | 12/31/2013 | | | |
| | | Current assets | | Non-current assets | Current assets | | Non-current assets |
| Accounts receivable, net | Other assets | Other assets | Accounts receivable, net | Other assets | Other assets | | |
| <u>Controlling Companies</u> | | | | | | | |
| SP | | | | | | | |
| Telecomunicações | | | | | | | |
| Participações | m) | 37 | 214 | 5,244 | 28 | 183 | 6,717 |
| Telefónica | | | | | | | |
| Internacional | m) | - | 154 | 52,873 | - | 154 | 38,386 |
| Telefónica | m) / p) | - | 865 | 179 | - | 1,361 | 179 |
| | | 37 | 1,233 | 58,296 | 28 | 1,698 | 45,282 |
| <u>Other group companies</u> | | | | | | | |
| Telefónica USA | k) | 2,020 | - | - | 2,612 | - | - |
| Telefónica Chile | l) | - | 4,644 | - | - | 4,808 | - |
| Telefónica de | | | | | | | |
| España | l) | - | - | - | 230 | - | - |
| Telefónica Peru | b) / l) | 1,647 | - | - | 1,573 | - | - |
| Telefônica | | | | | | | |
| Engenharia de | | | | | | | |
| Segurança do Brasil | a) / e) / m) | 1,169 | 1,973 | 434 | 1,320 | 1,903 | 472 |
| Telefónica | | | | | | | |
| International | | | | | | | |
| Wholesale Services | | | | | | | |
| Brasil | a) / e) / m) | 9,099 | 155 | 399 | 6,966 | 139 | 344 |
| Telefónica | | | | | | | |
| International | | | | | | | |
| Wholesale Services | | | | | | | |
| Espanha | k) | 35,769 | - | - | 48,267 | - | - |
| Telefónica Moviles | | | | | | | |
| España | l) | 7,618 | - | - | 6,335 | - | - |
| | | 2,713 | 15,391 | 2,844 | 2,579 | 15,284 | 2,837 |

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| | | | | | | | |
|--|----------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Telefônica Serviços Empresariais do Brasil | a) / e) / m) / q) | | | | | | |
| Telefônica Transportes e Logística | a) / e) / m) / q) | 331 | 126 | 80 | 530 | 146 | 64 |
| Terra Networks Brasil | a) / e) / m) | 3,195 | 5,524 | 493 | 2,561 | 5,682 | 106 |
| Other | a) / e) / l) | 23,920 | 5,237 | 17,882 | 25,352 | 5,372 | 13,611 |
| | | 87,481 | 33,050 | 22,132 | 98,325 | 33,334 | 17,434 |
| Total | | 87,518 | 34,283 | 80,428 | 98,353 | 35,032 | 62,716 |

| | | Balance sheets - liabilities | | | | | |
|---|---------------------|-------------------------------------|-------------------|------------------------|-------------------------------------|-------------------|------------------------|
| | | 03/31/2014 | | | 12/31/2013 | | |
| | | Current liabilities | | Noncurrent liabilities | Current liabilities | | Noncurrent liabilities |
| | | Trade accounts and accounts payable | Other liabilities | Other liabilities | Trade accounts and accounts payable | Other liabilities | Other liabilities |
| <u>Controlling Companies</u> | Type of transaction | | | | | | |
| SP | | | | | | | |
| Telecomunicações Participações Telefónica Internacional | e) / m) | 8,002 | - | 6,581 | 50,120 | - | 6,483 |
| Telefónica | m) / p) | 207,381 | - | - | 214,523 | - | - |
| Telefónica | n) | 2,180 | 80,899 | 2,220 | 1,772 | 84,754 | 2,035 |
| | | 217,563 | 80,899 | 8,801 | 266,415 | 84,754 | 8,518 |
| <u>Other group companies</u> | | | | | | | |
| Telefónica USA | g) | 716 | 42 | 121 | 716 | 31 | 121 |
| Telefónica Chile | l) | - | - | - | - | - | - |
| Telefónica de España | l) | 10 | - | - | 441 | - | - |
| Telefónica Peru | l) | - | - | - | - | - | - |
| Telefónica Engenharia de Segurança do Brasil | d) | 2,298 | - | 8 | 3,550 | - | 8 |
| Telefónica International Wholesale Services Brasil | g) | 109,739 | 1,214 | 378 | 75,485 | - | 391 |
| Telefónica International Wholesale Services Espanha | i) / l) | 8,541 | 14,490 | - | 17,842 | 9,986 | - |
| | l) | 6,094 | - | - | 5,468 | - | - |

| | | | | | | | |
|---|--------------|----------------|---------------|---------------|----------------|---------------|---------------|
| Telefónica Mviles Espana Telefônica Serviços Empresariais do Brasil | h) / m) | 9,807 | 24 | - | 11,701 | 36 | - |
| Telefônica Transportes e Logística | i) | 30,980 | 1 | 270 | 25,163 | 1 | 270 |
| Terra Networks Brasil | j) | 871 | - | 266 | 883 | - | 266 |
| Other | c) / f) / l) | 53,702 | 168 | 614 | 49,281 | 146 | 636 |
| | | 222,758 | 15,939 | 1,657 | 190,530 | 10,200 | 1,692 |
| Total | | 440,321 | 96,838 | 10,458 | 456,945 | 94,954 | 10,210 |

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| | Type of transaction | Income statements – revenues (costs and expenses) | | | |
|---|------------------------|---|--------------------|-----------------------|--------------------|
| | | First quarter of 2014 | | First quarter of 2013 | |
| | | Revenues | Costs and expenses | Revenues | Costs and expenses |
| <u>Controlling Companies</u> | | | | | |
| SP Telecomunicações Participações | e) / m | - | (5,872) | - | (17,078) |
| Telefónica Internacional | m) / p) | - | 21,094 | - | (558) |
| Telefónica | m) / n) | 3,610 | (87,430) | 2,139 | (34,688) |
| | | 3,610 | (72,208) | 2,139 | (52,324) |
| <u>Other group companies</u> | | | | | |
| Telefónica USA | g) / k) | 571 | (88) | 621 | (156) |
| Telefónica Chile | l) | - | (164) | - | - |
| Telefónica de España | l) | - | (59) | 817 | (700) |
| Telefónica Del Peru | b) / l) | - | 181 | - | (227) |
| Telefônica Engenharia de Segurança do Brasil | a) / d) / e) / m) | 470 | (2,119) | 601 | (1,483) |
| Telefónica International Wholesale Services Brasil | a) / e) / g) / m) | 2,988 | (43,976) | 1,663 | (30,303) |
| Telefónica International Wholesale Services Espanha | g) / k) / l) | 9,128 | (10,409) | 6,062 | (4,340) |
| Telefónica Mviles España | l) | 544 | (518) | 356 | (4,570) |
| Telefônica Serviços Empresariais do Brasil | a) / e) / h) / m) / q) | 978 | (13,767) | 1,815 | (20,713) |
| Telefônica Transportes e Logística | a) / e) / i) / m) / q) | 298 | (21,781) | 224 | (20,499) |
| Terra Networks Brasil | a) / g) / j) / m) | 1,385 | 618 | 1,027 | (1,061) |
| Other | a) / c) / e) / f) / l) | 3,084 | (6,944) | 3,247 | (523) |
| Total | | 19,446 | (99,026) | 16,433 | (84,575) |
| | | 23,056 | (171,234) | 18,572 | (136,899) |

28.b) Management compensation

Consolidated management compensation paid by the Company to its Board of Directors and Statutory Directors for the three month periods ended March 31, 2014 and 2013 amounted to approximately R\$5,625 and R\$16,525, respectively. Of this amount, R\$4,388 (R\$15,313 as of March 31, 2013) corresponds to salaries, benefits and social charges and R\$1,237 (R\$1,212 as of March 31, 2013) to variable compensation.

These amounts were carried as labor costs, according to the function in the groups of Costs of Services Rendered, Selling Expenses and General and Administrative Expenses (Note 23).

For the three month periods ended March 31, 2014 and 2013, our Directors and Officers did not receive any pension, retirement pension or other similar benefits.

29. INSURANCE

The policy of the Company and its subsidiary, as well as of Telefónica Group, includes maintenance of insurance coverage for all assets and liabilities involving significant and high-risk amounts, based on management's judgment and following Telefónica S.A.'s corporate program guidelines. Risk assumptions adopted, given their nature, are not included in the financial statements audit scope and, as a result, were not reviewed by our independent auditors.

Maximum limits of claims (established pursuant the agreements of each company consolidated by the Company) for significant assets, liabilities or interests covered by insurance and their respective amounts are as follows:

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(In thousands of reais)

| <u>Type</u> | Maximum claim limits |
|-----------------------------------|-------------------------|
| Operating risks (loss of profits) | 605,700 |
| General civil liability (RCG) | 21,160 |

30. SHARE-BASED COMPENSATION PLAN

The Company's controlling shareholder, Telefónica S.A., has different share-based compensation plans, which were also offered to management and employees of its subsidiaries, among which are Telefônica Brasil and TData.

Fair value of options is estimated on the grant date, based on the binomial model for pricing options which considers terms and conditions of instruments granted.

The Company refunds Telefónica S.A. for the fair value of the benefit granted to management and employees on grant date.

Significant plans effective as of March 31, 2014 and December 31, 2013 are detailed below:

a) Telefónica S.A share incentive plan: *Performance Share Plan (PSP)*

The General Shareholders' Meeting of Telefónica S.A., held on June 21, 2006, approved the adoption of a long-term incentive plan to executive officers of Telefónica S.A. and its subsidiaries, which consists of granting them, after fulfillment of the requirements set forth in the plan, with a given number of shares of Telefónica S.A., as variable compensation.

Initially, the plan is expected to remain effective for seven years. The plan is divided into five cycles, of three years each, each starting on July 1 ("Start Date") and ending on June 30 of the third year following the Start Date ("End Date"). At the beginning of each cycle, the number of shares to be granted to plan beneficiaries will be determined based on fulfillment of objectives set. Shares will be granted, as the case may be, after the End Date of each cycle. Cycles are independent, with the first one starting on July 1, 2006 (with shares granted on July 1, 2009), and the fifth cycle, on July 1, 2010 (with shares granted, as the case may be, as from July 1, 2013).

Granting of shares is conditional upon:

- Beneficiaries staying with the company for the three years of each cycle, subject to certain special conditions in relation to terminations.
- The actual number of shares granted at the end of each cycle will depend on the level of success and maximum number of shares granted to each executive officer. The level of success is based on the comparison of the evolution of shareholder remuneration considering price and dividends (Total Shareholder Return - TSR) of Telefónica shares, vis-à-vis the evolution of TSRs corresponding to a number of companies quoted in the telecommunications industry, which correspond to the Comparison Group. Each employee enrolled with the plan is granted, at the beginning of each cycle, a maximum number of shares, and the actual number of shares granted at the end of the cycle is calculated by multiplying this number by the maximum level of success on the date. This will be 100% if the evolution of Telefonica's TSR is equal to or greater than the third quartile of the Comparison Group, and 30% if this evolution is equal to the average. If the evolution is maintained between the two values, a linear interpolation will be made, and, if below the median, nothing will be granted.

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At June 30, 2013, the fifth cycle (5th cycle July 1, 2010) of this incentive plan ended. Due to a failure to reach TSR limits the shares were not distributed to the executives.

b) Performance & Investment Plan (PIP)

The General Shareholders' Meeting of Telefônica S.A., held on May 18, 2011, approved a long-term program to acknowledge the commitment, differentiated performance and high potential of its executive officers at global level, by granting them Telefônica S.A. shares.

Participants of the plan need not pay for the shares initially granted to them and may increase the number of shares receivable by the end of the plan if they decide for a joint investment in their PIP. Co-investment requires that the participant buy and maintain, to the end of the cycle, a number equivalent to 25% of shares initially granted thereto by Telefônica S.A. On participant's co-investment, Telefônica S.A. will increase initial shares by 25%.

Initially, the plan is expected to remain effective for three years. The cycle began on July 1, 2011 and will be effective until June 30, 2014. The number of shares is reported at the beginning of the cycle and, after three years from the grant date, shares are transferred to the participant if goals are achieved.

Granting of shares is conditional upon:

- maintenance of active employment relationship within the Telefônica Group on the cycle consolidation date;
- achievement, by Telefônica, of results representing fulfillment of the objectives established for the plan: the level of success is based on the comparison of the evolution or shareholder compensation, obtained through (TSR) to the evolution of the TSRs of the previously defined Comparison Group companies:

Ø 100% are granted if the TSR of Telefônica S.A exceeds the TSR of companies representing 75% of capitalization on the Comparison Group stock exchange.

Ø 30% are granted if the TSR of Telefónica S.A is equivalent to the TSR of companies representing 50% of capitalization on the Comparison Group stock exchange.

Ø determined by linear interpolation if the TSR of Telefónica S.A ranges from 50% to 75% of the capitalization of the Comparison Group stock exchange.

Ø No shares are granted if the TSR of Telefónica S.A is below the TSR of companies representing 50% of capitalization on the Comparison Group stock exchange.

The maximum number of shares attributed in the first three outstanding cycles at March 31, 2014 and December 31, 2013 is as follows:

| <u>Cycles</u> | Number of shares | Unit value in Euros | Maturity date |
|------------------------|------------------|---------------------|---------------|
| 1st cycle July 1, 2011 | 380,663 | 8.28 | June 30, 2014 |
| 2nd cycle July 1, 2012 | 672,675 | 8.28 | June 30, 2015 |
| 3rd cycle July 1, 2013 | 477,010 | 10.39 | June 30, 2016 |

c) Global share incentive plan of Telefónica S.A.: “Global Employee Share Plan” or GESP)

The General Shareholders’ Meeting of Telefónica S.A. held on May 18, 2011, approved the share option incentive plan of Telefónica S.A. for Telefonica Group’s employees, on a global level, including employees of Telefonica Brasil and its subsidiary. Through this plan, they are offered the possibility of acquiring shares of Telefónica S.A., which agrees to freely grant participants with a certain number of its shares, whenever certain requirements are fulfilled.

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Initially, the plan is expected to remain effective for two years. Employees enrolled with the plan could acquire Telefônica S.A. shares through monthly contributions of up to 100 Euros (or equivalent in local currency), with maximum of 1,200 Euros over twelve months (vesting period). Shares will be granted, as the case may be, after the vesting period, beginning December 1, 2014, and is conditional upon:

- Beneficiaries staying with the company for the two years of the program (vesting period), subject to certain special conditions in relation to terminations.
- The exact number of shares to be granted at the end of the vesting period will rely upon the number of shares acquired and held by employees. Thus, employees enrolled with the plan, continuing with the Group, and who have held the shares acquired for additional twelve months after the vesting period, are entitled to receive one free share for each share they have acquired and held through the end of the vesting period.

The vesting period started in November 2012 and the total number of employees of Telefônica Brasil and its subsidiaries enrolled with the plan totaled 1,839.

The Company and its subsidiary recorded personnel expenses referring to share-based payment plans for the three month periods ended March 31, 2014 and 2013, as follows:

| <u>Plans</u> | 1st quarter 2014 | 1st quarter 2013 |
|--------------|---------------------|---------------------|
| PSP | - | 349 |
| PIP | 2,467 | 2,958 |
| GESP | 603 | 544 |
| Total | 3,070 | 3,851 |

31. POST-RETIREMENT BENEFIT PLANS

The plans sponsored by the Company and related benefits types are as follows.

| Plan | Type(1) | Entity | Sponsor |
|-------------|----------------|-------------------|--|
| PBS-A | BD | Sistel | Telefônica Brasil, jointly with other telecoms originated from the privatization of Telebrás |
| PAMA / PCE | Health plan | Sistel | Telefônica Brasil, jointly with other telecoms originated from the privatization of Telebrás |
| CTB | BD | Telefônica Brasil | Telefônica Brasil |
| PBS | BD/ Hybrid | VisãoPrev | Telefônica Brasil |
| PREV | Hybrid | VisãoPrev | Telefônica Brasil |
| Vision | CD/Hybrid | VisãoPrev | Telefônica Brasil and Telefonica Data |

(1) DB = Defined benefit plan;

DC = Defined Contribution Plan;

Hybrid = Plan that offers both DB and DC-type benefits.

The Company, together with other companies from former Telebrás System, sponsors private pension plans and post-employment medical benefits, as follows: i) PBS-A; ii) PAMA; iii) CTB ; iv) PBS-Telefonica, PBS-Telesp Celular, PBS-TCO, PBS Tele Sudeste Celular and PBS Tele Leste Celular; v) Plano TCP Prev, TCO Prev and CelPrev; and vi) Plano de Benefícios Visão Telefônica and Visão Celular – Celular CRT, Telerj Celular, Telest Celular, Telebahia Celular and Telergipe Celular.

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The Company individually sponsors defined benefit retirement plans - Plano PBS, managed by Visão Prev. In addition, a multiemployer retirement plan (PBS-A) and health care plan (PAMA) are provided by the Company and its subsidiary to retired employees and their dependents (managed 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:

| <u>Type</u> | <u>%</u> |
|--------------------------|----------|
| PBS Telesp | 12.07 |
| PBS Telesp Celular | 13.22 |
| PBS Tele Sudeste Celular | 12.08 |
| PBS Telemig Celular | 24.79 |
| PAMA | 1.50 |

For other employees of the Company and its subsidiary, there is an individual defined contribution plan - Visão Benefit Plan, which is managed by Visão Prev Companhia de Previdência Complementar. These plans are funded by contributions made by participants (employees) and by sponsors, which are credited to members' individual accounts. The Company and its subsidiary are responsible for funding all administrative and maintenance expenses of such plans, including members' death and disability risks. The contributions made by the Company and its subsidiary to those plans are equal to those of the participants, which range from 2% to 9% of their salaries, and from 0% to 8% of the contribution salary of Vivo Prev participants, based on the percentage chosen by the employee.

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

The Company also sponsors the CelPrev. The participant may contribute to the plan in three ways, to wit: (a) normal basic contribution: percentage ranging from 0% to 2% of their participation salary; (b) normal additional contribution: percentage ranging from 0% to 6% of part of their participation salary exceeding 10 Standard Reference Units of the Plan, and (c) volunteer contribution: percentage freely chosen by the participant, and applied on their participation salary. The sponsor may contribute in four ways, to wit: (a) normal basic contribution: contribution equal to the normal basic contribution of the participant, less

contribution to fund the health allowance benefit and administrative expenses; (b) normal additional contribution: equal to the normal additional contribution of the participant, less administrative expenses; (c) volunteer contribution: volunteer contribution and with frequency determined by the sponsor, and (d) special contribution: contribution solely to sponsor's employees not belonging to PBS and who enrolled with the plan 90 days from the day CelPrev became effective.

All revenue and expenses relating to the defined benefit plan and the hybrid benefit plan as well as the employee contributions, cost of current services, interest on the net actuarial liabilities are recognized directly in the Company's operating income and that of its subsidiary.

Actuarial gains and losses from the defined benefit plan and the hybrid benefit plan, further to recoverability and surplus limits for reimbursement or reduction of future contributions are being immediately recognized as other comprehensive income and do not generate any impact in the Company's operational income or that of its subsidiary.

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The actuarial liability recorded by the Company and subsidiary at March 31, 2014 and December 31, 2013, is as follows:

| <u>Plan</u> | 03/31/2014 | 12/31/2013 |
|--------------|----------------|----------------|
| CTB | 49,099 | 49,158 |
| PAMA | 329,854 | 321,193 |
| Total | 378,953 | 370,351 |

For over funded plans the net actuarial assets were recorded by the Company and its subsidiaries at March 31, 2014 and December 31, 2013 under the other assets group of accounts (Note 9).

32. FINANCIAL INSTRUMENTS

The Company and its subsidiary measured their financial assets and liabilities in relation to market values based on available information and appropriate valuation methodologies. However, both interpretation of market information and selection of methodologies require considerable judgment and reasonable estimates in order to produce adequate realizable values. Consequently, the estimates presented do not necessarily indicate the amounts that could be realized in the current market. The use of different market hypothesis and/or methodologies may have a significant effect on the estimated realizable values. At March 31, 2014 and December 31, 2013, the Company did not identify any significant and impairment in recoverable amount of its financial instruments.

Breakdown of financial assets and liabilities as of March 31, 2014 and December 31, 2013.

At March 31, 2014:

| <u>Financial assets</u> | Measured at fair value through P&L | Fair value | | Consolidated Amortized cost | | Level 2 estimates based on market data | Total book value | Total fair value |
|------------------------------------|------------------------------------|----------------|--------------------|-----------------------------|----------------------|--|-------------------|-------------------|
| | | Coverage | Available for sale | Loans and receivables | Level 1 market price | | | |
| Current assets | | | | | | | | |
| Cash and cash equivalents (Note 3) | - | - | - | 4,544,521 | - | - | 4,544,521 | 4,544,521 |
| Accounts receivable, net (Note 4) | - | - | - | 5,914,608 | - | - | 5,914,608 | 5,914,608 |
| Derivative transactions (Note 32) | 3,111 | 262,477 | - | - | - | 265,588 | 265,588 | 265,588 |
| Noncurrent assets | | | | | | | | |
| Accounts receivable, net (Note 4) | - | - | - | 266,193 | - | - | 266,193 | 266,193 |
| Profit sharing (Note 10) | - | - | 83,296 | - | 83,296 | - | 83,296 | 83,296 |
| Derivative transactions (Note 32) | - | 110,434 | - | - | - | 110,434 | 110,434 | 110,434 |
| Total financial assets | 3,111 | 372,911 | 83,296 | 10,725,322 | 83,296 | 376,022 | 11,184,640 | 11,184,640 |

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| | Consolidated | | | | | |
|-------------------------------------|---|-------------------|----------|--|------------------------|------------------------|
| | Financial assets measured at fair value through P&L | Amortized cost | Coverage | Level 2 estimates based on market data | Total book value | Total fair value |
| <u>Financial liabilities</u> | | | | | | |
| Current assets | | | | | | |
| Trade accounts payable (Note 14) | | | | | | |